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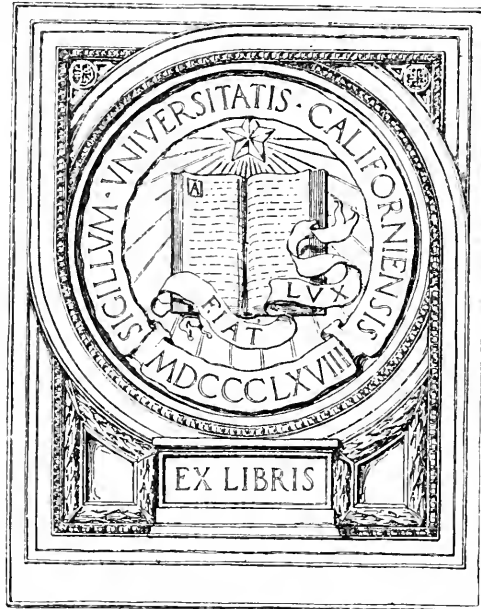


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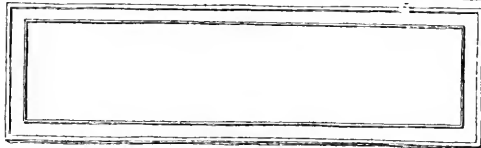
Lockyear's Bookkeeping



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Errata

Page 19, Section 61. After the transaction of May 4, insert the following:

May 4. Sold to B. F. Parker, on account, 50 yds. Empress cloth at \$1.35.

Page 33. The transaction of May 18 should read:

Bought from Marshall Field & Co., 400 yds. Silk Organdie at 22c.

Page 90. After the transaction of September 5, insert the following:

September 6. Bought from C. R. Langley, on account, merchandise valued at \$867.

AN INTRODUCTORY COURSE

LOCKYEAR'S BOOKKEEPING

By

M. H. LOCKYEAR

President (1909-10) National Commercial Teachers' Federation

President (1907-08) National Business Teachers' Association

Script Illustrations

By

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THE GREGG PUBLISHING COMPANY

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THE evolution through which the office methods of this country are passing is recognized by the leading publishers of textbooks and requires constant change in our methods of teaching. There is a tendency to force upon the schools bookkeeping texts which are too advanced for beginners. Business teachers should insist on texts which furnish a thorough training in the principles of bookkeeping and which lay a firm and solid foundation in the elementary principles before taking up matters which properly belong to advanced bookkeeping. When the foundations are secure, a limited amount of advanced bookkeeping may be added to the course, but this should be of secondary importance.

—M. H. LOCKYEAR.

In his Address as
President of the National Business
Teachers' Association, 1908.

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First Lesson

The Cash Account

1. *Bookkeeping* is a systematic method of recording business transactions.
2. *The object* of bookkeeping, or account keeping, is to furnish the proprietor with information about the business which will enable him to determine at any time who is owing him money and to whom he is indebted, the amount of property bought and sold, the expenditures and income of the business, cash on hand, and many other details of importance in the successful management of any enterprise.
3. As the results shown by a set of books are obtained from the various accounts, it follows that the first step in learning bookkeeping is to study the form and purpose of accounts. The form, or manner, of keeping all accounts is practically the same; but each has a purpose distinctly its own.
4. *An account* is a collection of debits and credits, under an appropriate title, relating to the same person or thing.
5. Accounts are kept in a book called the ledger, and it is necessary for you to study carefully the form of this book. The following illustration shows the form of the standard ledger account:

Form of Ledger Account

Year	Month	Day	Explanation	Page	Dollars	Cents	Year	Month	Day	Explanation	Page	Dollars	Cents
------	-------	-----	-------------	------	---------	-------	------	-------	-----	-------------	------	---------	-------

Illustration No. 1

Observe that the account is divided in the center by the three-line ruling into two equal parts, similarly ruled, the left half being the *debit* side and the right half the *credit* side.

6. Reading the columns of the left half of the account from left to right, notice that the first two are used for the month and day; the third is for explanations of the various transactions; the fourth is the folio column; while the fifth, which includes the space between the two-line ruling and the three-line ruling, is

the money column. Notice that it has a place for dollars and a place for cents. The uses of the explanation column and the folio column will be explained later.

7. By the term *cash* we mean everything that is considered as money; such as gold, silver and coins, paper money of all kinds, bank drafts, checks, express and postoffice money orders, etc.

8. A *business transaction* is an exchange of value between persons. Study the method of entering these cash transactions in the model Cash account on this page.

Transactions Illustrating Cash Account

June 1	Amount of cash on hand.....	\$1,200.00
June 2	Paid cash for rent of warehouse for 1 month.....	20.00
June 3	Paid cash for invoice of goods bought from R. P. Sloan.....	255.00
June 3	Paid cash for merchandise.....	7.92
June 4	Sold merchandise for cash.....	180.00
June 4	Received cash for sale to A. G. Link.....	2.96
June 6	Paid cash for merchandise.....	105.41
June 7	Received cash for merchandise.....	138.00
June 7	Paid James Kinney one week's wages.....	8.00
June 8	Gave O. R. Johnson check for merchandise.....	13.44
June 9	Paid for repairs	3.75
June 10	Received check for merchandise.....	5.40
June 10	Sold for cash bill of goods amounting to.....	44.00
June 13	Paid cash for merchandise.....	230.85
June 14	Bought a horse and wagon for cash.....	175.00

Cash

19—			19—		
June 1		1200	June 2		20
4		180	3		255
4		296	3		792
7		138	6		10541
10		540	7		8
10		44	8		1344
			9		375
			13		23085
			14		175
		1570 36			1570 36
June 15	Balance	750 99			

Illustration No. 2

9. Deductions made from the foregoing transactions:

- (a) When cash is received the amount is entered on the left or debit side.
- (b) When cash is paid out the amount is entered on the right or credit side.
- (c) The *balance* of the cash on hand is the sum of the receipts, plus the amount on hand at the beginning of business, if there is such an amount, minus the sum of the payments.
- (d) The balance of cash as shown by the Cash account must agree with the cash actually on hand.

10. To balance the Cash account:

- (a) Write the balance in red ink on the credit side.
- (b) Close the money columns with single red lines as shown in the illustration.
- (c) Write the footings immediately under the red lines.
- (d) Immediately under the footings and across the date column draw two-line rulings as shown in the illustration.
- (e) Transfer the balance to the debit side below the double rulings.

Note: You will observe that the red ink rulings on opposite sides of the account are on the same line.

11. It is important that you learn at this time how to balance an account. You are therefore urged to make a very careful study of the above steps in connection with the foregoing account.

It is very important that you realize now, at the beginning of this study, the necessity for doing neat, accurate work. The ability to perform good mechanical work is just as necessary as a thorough knowledge of the theory of bookkeeping. Your aim at all times should be to have your work in the best possible form. The utmost care must be taken with the writing, figures, ruling, etc.

Exercise No. 1

12. Prepare a Cash account from the following transactions on a sheet of ledger paper which you will find among your supplies. When the exercise is completed, hand it to your teacher for approval.

Cash Transactions

July 1	Amount of cash on hand.....	\$ 300.00
July 2	Paid store rent for one month.....	40.00
July 2	Bought merchandise	12.35
July 3	Received cash for merchandise	10.00

July 5	Paid for repairs	1.85
July 7	Sold merchandise for cash.....	13.60
July 9	Gave my check to J. M. French for merchandise.....	25.00
July 9	Paid James Harter one week's wages.....	9.50
July 11	Received cash for merchandise	18.00
July 15	Paid cash for merchandise.....	17.45
July 15	Sold for cash merchandise amounting to.....	20.00

Balance the account, following the steps set out above, and bring the balance down below the ruling as shown in the previous illustration.

Continue the account immediately below the ruled lines with the following transactions:

July 16	Received check from J. C. King for merchandise.....	19.00
July 16	Paid James Harter one week's wages.....	9.50
July 18	Sold merchandise for cash.....	31.45
July 19	Paid cash for merchandise amounting to.....	5.46
July 20	Paid express charges on above.....	1.35
July 22	Bought for cash invoice of goods from C. K. Billings.....	37.25
July 23	Paid James Harter one week's wages.....	9.50
July 24	Bought merchandise for cash.....	41.40
July 24	Received cash for merchandise.....	36.00

Balance and rule the account.

Exercise No. 2

13. To be able to do neat ruling requires practice. For this exercise you will rule a ledger account on a sheet of blank paper. Rule the account as shown in Illustration No. 1.

Prepare a Cash account from the transactions given below. Always put forth your best efforts in the preparation of these exercises. Neatness and accuracy are essential qualities of a bookkeeper.

Fruit and Confectionery Transactions

Jan. 1	Amount of cash on hand	\$ 150.00
Jan. 1	Bought one box Florida oranges.....	1.80
Jan. 2	Bought 10 bunches bananas at \$1.40.....	14.00
Jan. 2	Received cash for 3 bunches bananas at \$1.60.....	4.80
Jan. 4	Paid cash for 80 lbs. candy at 22c.....	17.60
Jan. 5	Sold 2 boxes oranges at \$2.00.....	4.00
Jan. 5	Sold 2 bunches bananas at \$1.35.....	2.70
Jan. 6	Sold 40 lbs. candy at 30c.....	12.00
Jan. 7	Paid for repairs.....	2.35
Jan. 7	Paid cash for 12 boxes oranges at \$2.00.....	24.00
Jan. 7	Received cash for 4 boxes oranges at \$2.50.....	10.00
Jan. 8	Received cash for 3 bunches bananas at \$1.75.....	5.25

Balance the account as previously instructed. Bring the balance below the ruling and continue the account.

Jan. 9	Paid cash for 200 pounds candy at 30c.....	\$ 60.00
Jan. 9	Received cash for 5 boxes oranges at \$1.90.....	9.50
Jan. 11	Received cash for 75 pounds candy at 38c.....	28.50
Jan. 11	Paid store rent.....	10.00
Jan. 12	Sold 80 pounds candy at 36c.....	28.80
Jan. 13	Paid for fixtures.....	13.45
Jan. 13	Sold 2 boxes oranges at \$2.25.....	4.50
Jan. 14	Sold 40 pounds candy at 40c.....	16.00
Jan. 15	Sold 1 box oranges	2.30
Jan. 15	Paid cash for 10 boxes lemons at \$1.80.....	18.00
Jan. 16	Received cash for 2 boxes lemons at \$2.25.....	4.50
Jan. 18	Received cash for 3 boxes lemons at \$2.30.....	6.90
Jan. 19	Received cash for 10 pounds candy at 45c.....	4.50

Balance the account as previously instructed, and hand it to your teacher.

14. Answer the following questions in writing and hand to your teacher:

- (a) What items are considered cash?
- (b) Write the rule for debiting and crediting cash.
- (c) What is the purpose of the Cash account?
- (d) How is the balance of cash ascertained?
- (c) State the steps in closing the Cash account.
- (f) What is the method of testing the Cash account?
- (g) When an account is balanced and continued, why is the balance brought below the ruling?

Second Lesson

The Merchandise Account

15. The term *Merchandise* includes all movable property which is bought and sold for the purpose of gain. Merchandise is the principal source of profit in a trading concern.

16. The chief purpose of this account is to show the gain or loss on merchandise handled by the dealer.

17. The following illustration shows the purpose for which the Merchandise account is kept and the manner of keeping it. Read the transactions and observe carefully how each is entered.

Transactions Illustrating Merchandise Account

May 2	Bought from the Diamond Coal Co., 12 T. coal at \$1.90.....	\$22.80
May 3	Sold 2 T. coal for cash at \$2.50.....	5.00
May 3	Bought for cash from the Chandler Coal Co., 4 T. coal at \$2.00.....	8.00
May 4	Sold 3 T. coal at \$2.75.....	8.25
May 5	Sold 6 T. coal at \$2.60 for cash.....	15.60
May 6	Bought of the Ingle Coal Co., 7 T. coal at \$1.75.....	12.25
May 6	Sold for cash 6 T. coal at \$2.80.....	16.80
May 6	Sold 2 T. coal at \$2.40.....	4.80
May 8	Bought from Woolley Coal Co., 14 T. coal at \$2.00.....	28.00
May 8	Sold for cash 7 T. coal at \$2.60.....	18.20
May 9	Sold 5 T. coal at \$2.65.....	13.25
May 10	Sold for cash 6 T. coal at \$2.60.....	15.60

Merchandise

¹⁹⁻ May	2	12 T @ \$1.90	22.80	¹⁹⁻ May	3	2 T @ \$2.50	5
	3	4 T @ 2.00	8		4	3 T @ 2.75	8.25
	6	7 T @ 1.75	12.25		5	6 T @ 2.60	15.60
	8	14 T @ 2.00	28		6	6 T @ 2.80	16.80
					6	2 T @ 2.40	4.80
					8	7 T @ 2.60	18.20
					9	5 T @ 2.65	13.25
					10	6 T @ 2.60	15.60
			97.50				97.50

Illustration No. 3

18. Observe the following:

How many tons of coal were bought?

How many tons were sold?

Find the gain.

19. Deductions made from the foregoing transactions:

(a) The account is debited for all merchandise bought.

(b) The account is credited for all merchandise sold.

(c) The amount of gain or loss is the difference between the two sides of the account—a gain if there be a credit excess, a loss if there be a debit excess.

20. When the Merchandise account shows a gain, it is closed by writing on the debit side, in red ink, the word "Gain" and the amount thereof. Illustration No. 3 shows the manner of closing the Merchandise account when all goods have been sold and there is a gain.

21. If the coal had been sold for less than cost, the credit side of the account would be the smaller. In that case you would close the account by writing on the credit side in red ink the date and the amount of the loss.

22. Notice that the balancing amount, which would be the loss or the gain, is not carried below the double rulings. Its disposition will be explained in another lesson.

Merchandise Inventory, Freight and Drayage

23. The purpose of the Merchandise account is to show the cost of goods purchased and the returns from sales, in order to ascertain the gain or loss on trading. The original cost of the goods is not the only item that must be considered. There are incidental charges such as freight, drayage, expressage, etc., which increase the cost of the goods. These charges are often debited direct to the Merchandise account. If it is desired to know the exact amount paid for these additional charges, a separate account may be opened in the ledger for each. When this is done, these accounts should be transferred to the Merchandise account at the time of closing the books.

24. *Merchandise Account with Freight and Drayage Charges and an Inventory.* In the following exercise you will enter freight, drayage, expressage, etc., in the Merchandise account.

Merchandise Account with Inventory

May 11	Bought of John Archibold Coal Co., 8 T. coal at \$1.70.....	\$13.60
May 11	Paid freight on above.....	2.00
May 12	Sold 4 T. coal for cash at \$3.00.....	12.00

May 13	Sold 2 T. coal on account at \$2.90.....	5.80
May 13	Bought 10 T. coal from Green River Coal Co. for cash at \$1.75.....	17.50
May 13	Paid freight on above.....	2.25
May 14	Sold 8 T. coal for cash at \$3.10.....	24.80
May 14	Paid for hauling	1.00
May 16	Bought from the S. W. Little Coal Co., for cash, 16 T. coal at \$2.00.....	32.00
May 17	Sold on account 9 T. coal at \$3.25.....	29.25
May 18	Sold for cash 2 T. coal at \$3.25.....	6.50

Merchandise							
May ¹⁹	11	8 T @ 1.70	13.60	May ¹⁹	12	4 T @ 3.00	12
	11	Freight	2		13	2 T @ 2.90	5.80
	13	10 T @ 1.75	17.50		14	8 T @ 3.10	24.80
	13	Freight	2.25		17	9 T @ 3.25	29.25
	14	Drayage	1		18	2 T @ 3.25	6.50
	16	16 T @ 2.00	32				
			96.35				96.35
May	18	Inventory	18				

Illustration No. 4

Note: The above illustration shows the account when not written at the top of the ledger page.

25. Observe the following:

How many tons of coal were bought? How much was paid for it? What was the total cost? How many tons were sold? How much was received for it? How many tons are on hand? If the coal on hand should be sold at cost, \$2.00 per ton, what would be the amount of profit on the coal already sold?

26. A *merchandise inventory* is a schedule of goods on hand; the value being usually computed at cost price.

27. In order to determine the gain or loss on merchandise sold, it is necessary to take into account the *inventory* (the unsold goods) which in the above illustration is nine tons. It is assumed that this amount is sold for \$2.00 a ton, which is the original cost. Adding the inventory value, \$18.00, to the credit side of the Merchandise account is equal to selling the goods at cost. Now, the difference between the two sides of the account will show the gain or loss on the merchandise actually sold.

Another explanation for entering the inventory at cost on the credit side is that this amount offsets an equal amount entered on the debit side of the account when the goods were purchased, and thus the remaining entries in the account represent the cost and returns of the goods disposed of.

28. In closing the Merchandise account the inventory is brought down on the debit side under the double rulings. The account then shows the value of the goods on hand at that time. Subsequent purchases will be entered on the debit side of the account as before.

Exercise No. 3

29. Prepare a Merchandise account from the following transactions, using a sheet of ledger paper, and hand to your teacher. Assume that you are dealing in coal and wood.

Coal and Wood Transactions

June 1	Buy from National Coal Co., on account, 8 T. coal at \$1.70.....	\$13.60
June 2	Buy from Helfrich Lumber Co., for cash, 10 cds. wood at \$1.25.....	12.50
June 2	Sell at retail, for cash, 4 T. coal at \$2.60.....	10.40
June 3	Buy 12 T. coal from St. Bernard Coal Co., on account, at \$1.75.....	21.00
June 3	Pay freight on the above.....	4.00
June 3	Sell at retail, for cash, 6 cds. wood at \$2.25.....	13.50
June 3	Pay yard rent.....	3.00
June 4	Buy from John A. Reitz & Sons, for cash, 15 cds. wood at \$1.10.....	16.50
June 4	Sell at retail, for cash, 7 cds. wood at \$2.50.....	17.50
June 4	Sell at retail, for cash, 4 T. coal at \$3.00.....	12.00
June 6	Pay cash for hauling wood.....	2.00
June 6	Sell at retail, on account, 2 T. coal at \$2.90.....	5.80
June 6	Sell at retail, for cash, 3 cds. wood at \$2.85.....	8.55
June 7	Pay for repairs on shed.....	1.50
June 7	Buy from St. Bernard Coal Co., on your note, 10 T. coal at \$1.80.....	18.00
June 7	Sell at retail, for cash, 4 T. coal at \$3.10.....	12.40
June 8	Sell at retail, for cash, 4 cds. wood at \$2.50.....	10.00
June 9	Sell at retail, for cash, 6 T. coal at \$3.50.....	21.00
June 9	Sell at retail, for cash, 2 cds. wood at \$2.75.....	5.50
June 10	Buy from the Helfrich Lumber Co., for cash, 12 cds. wood at \$1.20.....	14.40
June 11	Sell at retail, for cash, 5 cds. wood at \$2.60.....	13.00

30. When the account is completed carry out the following instructions:

- (a) Find the cost of the coal and the wood.
- (b) Find the total expense incurred in running the business.
- (c) Find the amount for which the coal and the wood were sold.
- (d) Find the number of tons of coal and the number of cords of wood on hand.

- (e) Inventory the coal on hand at \$1.85 per ton, and the wood on hand at \$1.20 per cord.
- (f) From these facts find the amount of gain or loss.
- (g) Close the account as shown in Illustration No. 3.

Exercise No. 4

31. Take a sheet of ledger paper, rule it in ledger form, and prepare a Merchandise account from the transactions given below. When completed hand to your teacher. Do not lose sight of the important fact that clean, accurate work is imperative. Let this work represent your best efforts.

Fruit Transactions

June 1	Buy 15 bunches bananas at \$1.25.....	\$18.75
June 1	Buy 10 boxes oranges at \$1.80.....	18.00
June 2	Sell 2 bunches bananas at \$1.80.....	3.60
June 2	Buy 8 boxes lemons at \$1.90.....	15.20
June 2	Sell 3 boxes oranges at \$2.60.....	7.80
June 3	Sell 3 boxes lemons at \$2.70.....	8.10
June 3	Pay rent	6.00
June 3	Sell 6 bunches bananas at \$1.90.....	11.40
June 4	Sell 4 boxes oranges at \$2.90.....	11.60
June 4	Pay freight bills	2.30
June 4	Buy 15 bunches bananas at \$1.15.....	17.25
June 4	Pay cash for drayage50
June 4	Sell 2 boxes lemons at \$2.90.....	5.80
June 6	Buy 15 boxes lemons at \$1.60.....	24.00
June 6	Pay freight bills	1.80
June 7	Sell 6 boxes lemons at \$2.75.....	16.50
June 7	Sell 7 bunches bananas at \$2.00.....	14.00
June 8	Sell 8 bunches bananas at \$1.85.....	14.80
June 8	Sell 4 boxes lemons at \$2.80.....	11.20

32. Inventory the bananas on hand at \$1.25 per bunch; the oranges at \$1.80 per box; and the lemons at \$1.75. Close the account as shown in Illustration No. 4.

33. Answer the following questions in writing and hand to your teacher:

- (a) Write the rules for debiting and crediting Merchandise.
- (b) What facts are shown by the Merchandise account?
- (c) Why are freight and drayage items charged to Merchandise account?
- (d) Under what conditions does the account show a gain? A loss?
- (e) How is the gain or loss ascertained when there is an inventory?

Third Lesson

Double Entry Bookkeeping

34. The work up to this point has dealt with but one account at a time, but this lesson will deal with two accounts. Its purpose is to develop the principle of *Double Entry Bookkeeping*. This principle is briefly stated as follows: whenever an account is debited some other account is credited with an equal amount.

35. The following rules of debit and credit have been observed:

- (a) The Cash account is debited with amount of cash on hand at beginning of business and with all cash received, and credited with all cash paid out.
- (b) The Merchandise account is debited with the amounts of the various purchases and other items of cost, such as freight, drayage, etc., and for goods returned to us. It is credited with the amounts of the various sales, and with goods we return to others.

36. The illustrations on the next page show the manner of keeping a Cash and a Merchandise account. Read the several transactions and observe that cash and merchandise are involved in each and that the same amount is entered in each instance in both accounts, but on opposite sides. Apply the above rules to each transaction.

Transactions Illustrating Cash and Merchandise Accounts

- June 1 Amount of cash on hand \$425. (You will enter this item on the debit side of the cash account only. All other transactions will require a corresponding credit for every debit.)
- June 1 Bought for cash 130 yds. Black French Voile at 70c.
- June 1 Bought for cash 150 yds. German Broadcloth at \$1.25.
- June 2 Sold for cash 45 yds. Black French Voile at 90c.
- June 2 Sold for cash 30 yds. German Broadcloth at \$1.70.
- June 2 Sold for cash 25 yds. Black French Voile at 90c.
- June 3 Bought for cash 30 yds. Black French Voile at 70c.
- June 3 Sold for cash 50 yds. Black French Voile at 90c.
- June 3 Paid for freight on goods received on the 1st inst., \$3.70.
- June 4 Received cash for 40 yds. German Broadcloth at \$1.70.
- June 4 Paid cash for 5 yds. Black French Voile, returned by customer, at 90c.

June 4 Received cash for 55 yds. German Broadcloth at \$1.70.

June 6 Sold for cash 10 yds. Black French Voile at 90c.

June 6 Sold for cash 25 yds. German Broadcloth at \$1.70.

June 6 Received cash for 35 yds. Black French Voile at 90c.

Cash

June 1	Overhand	1125	June 1	130 yds. @ .70	91
2	45 yds. @ .90	4050	1	150 " @ 1.25	18750
2	30 " @ 1.70	5100	3	30 " @ .70	2100
2	25 " @ .90	2250	3	Freight	370
3	50 " @ .90	4500	4	5 yds. @ .90	450
4	40 " @ 1.70	6800			
4	55 " @ 1.70	9350			
6	10 " @ .90	900			
6	25 " @ 1.70	4250			
6	35 " @ .90	3150			
		82850			82850
June 7	Balance	52080			

Illustration No. 5

June 1	150 yds. @ .70	91	June 2	45 yds. @ .90	4050
1	150 " @ 1.25	18750	2	30 " @ 1.70	5100
3	30 " @ .70	2100	2	25 " @ .90	2250
3	Freight	370	3	50 " @ .90	4500
4	5 yds. @ .90	450	4	40 " @ 1.70	6800
			4	55 " @ 1.70	9350
			6	10 " @ .90	900
			6	25 " @ 1.70	4250
			6	35 " @ .90	3150
		40350			40350

Illustration No. 6

Exercise No. 5

37. Take a sheet of ledger paper, and prepare a Cash and a Merchandise account from the transactions given on the next page.

Dress Goods Transactions

- July 1 Amount of cash on hand (Debit cash only), \$300.
 July 1 Bought for cash 125 yds. Black Panama at 70c.
 July 1 Paid cash for drayage on above, 50c.
 July 1 Bought for cash 80 yds. Cashmere at 15c.
 July 2 Sold for cash 20 yds. Black Panama at 95c.
 July 2 Bought for cash 150 yds. Mohair Brilliantine at 60c.
 July 2 Sold for cash 10 yds. Cashmere at 25c.
 July 2 Received cash for 90 yds. Mohair Brilliantine at 90c.
 July 3 Paid cash for freight and drayage on above, 3.60.
 July 3 Sold for cash 18 yds. Mohair Brilliantine at 90c.
 July 3 Sold for cash 25 yds. Black Panama at 95c.

Balance and rule the Cash account. Do not close the Merchandise account.

- July 5 Sold for cash 30 yds. Cashmere at 25c.
 July 5 Received cash for 22 yds. Mohair Brilliantine at 90c.
 July 5 Bought for cash 10 yds. Mohair Brilliantine at 60c.
 July 6 Sold for cash 40 yds. Black Panama at 95c.
 July 6 Sold for cash 20 yds. Cashmere at 25c.

38. *The resources* of a business are everything of value belonging to the business, as money, merchandise, real estate, fixtures, or other property and amounts owed by others to the proprietor.

39. *By gain* is meant the profits obtained by selling goods for more than their cost, interest received on notes or other debts owed to the proprietor, discounts allowed to him by others, rents paid to him by others for the use of his property, etc.

40. Determine how many yards of each kind of dress goods you have on hand, and compute the value of the inventory at cost price.

41. Make out on journal paper and fill in with the proper figures a form like the one below.

Note: The amounts given in the model statement are simply for your guidance in writing the figures in their proper places.

<i>Resources</i>			
Cash on hand		200	
Merch. Inventory		150	350
<i>Gain</i>			
Merch. Sales (Cr. Side)	375.00		
Inventory	150.00	525	
Cost (Dr. Side)		475	
Gain			50

Illustration No. 7

42. Close the Cash account as shown in Illustration No. 2. Bring the balance down.

43. Close the Merchandise account as shown in Illustration No. 4. Bring the inventory down.

44. You were worth \$300.00 when you began trading. You have gained \$62.15. The sum of these two is \$362.15. The latter amount represents what you are worth now. Observe that this amount agrees with your resources. Why?

45. Answer the following questions in writing and hand to your teacher, together with all the work called for in Exercise No. 5. Remember that only neat work will be accepted.

- (a) What is an inventory?
- (b) What value is usually placed on the goods on hand?
- (c) Suppose the goods on hand have increased in value since they were purchased, would this alter the inventory valuation?
- (d) What is meant by present worth?

Fourth Lesson

The Personal Account

46. A *personal account* is an account with a person, firm or corporation.
47. When goods are sold on credit, that is, when nothing is received from the buyer in payment at the time of the sale, the transaction is said to be "on account."
48. "*On account ten days*" means that the buyer is to pay for the goods within ten days from the date of the sale. The time allowed the purchaser in which to pay the bill is known as a "term of credit."

Personal Account Showing a Resource

49. Read the following transactions and observe carefully how each item is entered in the account. Your aim must be to determine the purpose for which the account is kept and the manner of keeping it.

Transactions with David Baum

July 1	Sold to David Baum merchandise amounting to.....	\$12.50
July 3	Bought from him on account, merchandise.....	3.00
July 5	Received cash from him on account.....	5.00
July 6	Sell him groceries amounting to.....	6.75
July 8	Received from him 2 office chairs at \$2.25.....	4.50

50. At this time Mr. Baum wishes to pay you cash for the balance he owes. You determine the amount by taking the sum of the credits from the sum of the debits. After crediting his account with the cash received you will notice that the account balances; that is, both sides are equal. It should now be ruled up as shown in the model account. Continue the transactions given below.

July 9	Sell him on account, merchandise amounting to.....	9.70
July 10	He returns for credit part of the merchandise sold him yesterday.....	4.50
July 11	Received cash to apply on account.....	3.00
July 15	Sell him on account, merchandise amounting to.....	11.80
July 18	Received from him merchandise to apply on account.....	4.00
July 19	He paid cash to apply on account.....	7.00

July 22	Sold him a bill of groceries amounting to.....	3.65
July 24	Received merchandise from him on account.....	4.40
July 26	Returned to him some goods bought on the 23d.....	2.75

It is now desired to balance the account so as to show in a single item how much is due from Mr. Baum. Observe how the account is balanced by studying the model form. Note that the balance is brought down below the double rulings.

David Baum

¹⁹ July 1	Mdse	12.50	¹⁹ July 3	Mdse	3
6	"	6.75	5	Cash	5
			8	Mdse	4.50
			8	Cash	6.75
		19.25			19.25
July 9	Mdse	9.70	July 10	Mdse	4.50
15	"	11.80	11	Cash	3
22	"	3.65	18	Mdse	4
26	"	2.75	19	Cash	7
			24	Mdse	44.0
		27.90			27.90
July 26	Balance	5			

Illustration No. 8

51. Observe the following:

What is a resource? (See Section 38.)

Why does the above account show a resource?

Personal Account Showing a Liability

52. *Liabilities* are the debts of a person or a business.

Transactions with Parsons & Scoville Co.

July 1	Buy merchandise on account from the Parsons & Scoville Co.....	\$62.00
July 2	Buy from them, on account, merchandise amounting to.....	12.00
July 5	Sell them merchandise on account.....	48.00
July 8	Pay them cash on account.....	12.50
July 9	Buy from them, on account, invoice of goods amounting to.....	23.00
July 11	Pay them cash on account.....	20.00
July 15	Buy merchandise from them, on account.....	7.20

		<i>Parsons & Scoville Co</i>			
<i>July 5</i>	<i>Mdse</i>	<i>48</i>	<i>July 1</i>	<i>Mdse</i>	<i>62</i>
<i>8</i>	<i>Cash</i>	<i>1250</i>	<i>2</i>	<i>"</i>	<i>12</i>
<i>11</i>		<i>20</i>	<i>9</i>	<i>"</i>	<i>23</i>
			<i>15</i>	<i>"</i>	<i>720</i>
		<i>10420</i>			<i>10420</i>
			<i>July 15</i>	<i>Balance</i>	<i>2370</i>

Illustration No. 9

53. Deductions made from the foregoing transactions:

- (a) Debit Persons:
 1. For any goods or property sold them on account.
 2. For all cash paid them on account.
- (b) Credit Persons:
 1. For all goods or property you buy of them on account.
 2. For all payments received from them on account.
- (c) When the *debit* side of a personal account is the greater, the account represents a debt due the business. This is a resource.
- (d) When the *credit* side is the greater, the account represents a debt owing by the business. This is a liability.

54. Balancing the personal account.

- (a) When a personal account balances, that is, when both sides are equal, the account is ruled up. Then neither party owes the other and the account is said to be "closed."
- (b) As a rule personal accounts are not "balanced" and ruled up until they are settled in full, but it is often desirable to do so, especially when it becomes necessary to transfer the account to a new page or to a new ledger.

55. Observe the following:

Who owes the \$23.70?

What is the purpose of the personal account?

Which side of a personal account is the larger when a person owes you?

When you owe him?

Exercise No. 6

56. Prepare a personal account with John Smith from the following transactions.

Grocery Transactions

- July 1 Sold him on account 30 boxes Jap Rose Soap at \$1.00.
- July 2 Bought from him on account 5 boxes Ivory Soap at \$4.50.
- July 5 Received from him on account 3 boxes American Family Soap at \$1.90.
- July 5 Sold him on account 1 bag, 135 lbs. Santos Coffee at 18c.
- July 8 Received from him on account 10 cases Arm & Hammer Soda at \$3.30.
- July 13 Sold him on account 4 cases Menier Cocoa at \$3.25.
- July 15 Received from him on account 4 boxes Ivory Soap at \$4.50.
- July 16 Pay cash in full of account. Rule the account.
- July 19 Sold him on account 2 bags Maracaibo Coffee, 140 lbs. at 22c.
- July 20 Received cash on account \$12.00.
- July 22 Received on account one case Baker's Chocolate, \$4.50.
- July 25 Sold him on account one barrel Granulated Sugar, \$15.00.
- July 27 Sold him on account 120 lbs. English Breakfast Tea at 90c.

57. Directions for proceeding with the exercise:

- (a) Add both sides of the account. Who owes the balance? Is it a resource or a liability? Why?
- (b) Balance and rule the account as shown in illustration No. 8.
- (c) Hand your work in for inspection.

58. Answer the following questions in writing and hand to your teacher:

- (a) Write the rule for debiting and crediting a personal account.
- (b) If the debit side of a personal account is greater than the credit side, does it show a resource or a liability? Why?
- (c) What term is used to express buying or selling on credit?

Fifth Lesson

Cash, Merchandise, Personal and Proprietor's Stock Account

59. It is customary to keep a *proprietor's stock account* for the purpose of showing his present worth. At the beginning of business this account is credited with the amount of the investment and throughout the course of business is credited for any other amounts that may be invested; it is debited with the various withdrawals that may be made by the proprietor.

60. It is also customary at various times to close the books for the purpose of determining the *net gain* or *net loss* of the business. If the business shows a net gain the proprietor's stock account is credited with the amount, and this, plus the amount of investment, is his *Present Worth*. On the other hand, if the business shows a net loss the proprietor's stock account is debited with the amount, and the investment, less this amount, is his Present Worth.

61. The illustration on the next page shows the manner of keeping a Merchandise, a Cash, a Personal, and a Proprietor's stock account. Observe that it is Double Entry work, *every transaction affecting two accounts*.

The business was begun with a cash investment of \$800. By this is meant that \$800 was put into the business. J. D. Sims was the proprietor.

Transactions Illustrating the Double Entry Principle

- May 1 Amount of cash on hand, \$800.00.
- May 1 Bought for cash 50 yds. Empress cloth at \$1.05.
- May 1 Bought from B. F. Parker, on account, 100 yds. Broadcloth at \$2.10.
- May 2 Sold to Charles Johnson, on account, 25 yds. Empress cloth at \$1.35.
- May 3 Paid B. F. Parker cash to apply on account, \$150.00.
- May 4 Bought for cash 75 yds. Empress cloth at \$1.05.
- May 6 Bought from Charles Johnson, on account, 10 yds. Broadcloth at \$2.10.
- May 6 Sold for cash 50 yds. Broadcloth at \$2.95.
- May 7 Sold Charles Johnson, on account, 20 yds. Empress cloth at \$1.35.
- May 8 Sold for cash 15 yds. Broadcloth at \$2.95.
- May 9 Received cash from Charles Johnson, on account, \$10.00.
- May 9 Bought from B. F. Parker, on account, 50 yds. Empress cloth at \$1.05.

					19- May 1 Investment	8 0
				Cash		
19- May	1 Investment	8 00	19- May	1 50 yds @ 1.25	52 50	
	6 50 yds @ 2.95	147 50		3 B.F. Parker	1 50	
	8 15 " @ 2.95	44 25		4 75 yds @ 1.25	78 75	
	9 Chas Johnson	100 75			251 25	
				Merchandise		
19- May	1 50 yds @ 1.05	52 50	19- May	2 50 yds @ 1.35	33 75	
	1 100 " @ 2.10	210		4 50 " @ 1.35	67 50	
	4 75 " @ 1.05	78 75		6 50 " @ 2.95	147 50	
	6 10 " @ 2.10	21		7 20 " @ 1.35	27	
	9 50 " @ 1.05	52 50		8 15 " @ 2.95	44 25	
		414 75			320 00	
				B.F. Parker		
19- May	3 Cash	150	19- May	1 100 yds @ 2.10	210	
	4 50 yds @ 1.35	67 50		9 50 " @ 1.05	52 50	
		217 50			262 50	
				Chas Johnson		
19- May	2 35 yds @ 1.35	33 75	19- May	6 10 yds @ 2.10	21	
	7 20 " " 1.35	27 00		9 Cash	10	
		60 75			31	

The Trial Balance

62. You have observed in a study of the foregoing illustrations, that the amount involved in each transaction is entered in two accounts, and in every instance on opposite sides. In other words, every debit has a credit. (See Third Lesson, Section 34.) This being true, it is obvious that the sum of the debits of all the accounts equals the sum of the credits of all the accounts, if the entries have been properly made.

63. The *Trial Balance* is a test to ascertain if the total debits in the ledger equal the total credits. The trial balance does not prove that errors have not been made in computations, entering a debit or credit item on the proper side of the ledger but in the wrong account, etc.

Method of Taking a Trial Balance

64. Learn to do your work systematically and in order. The force of this admonition will be more fully appreciated should you at any time have difficulty in getting your trial balance. In most instances, this difficulty may be traced to carelessness.

65. The following is the manner of taking the trial balance:

- (a) Foot both sides of each account and place pencil footings in small figures directly under the last posted item, as shown in the model accounts. Be sure that your pencil has a sharp point.
- (b) On a sheet of journal paper place the titles of the accounts and their footings, as shown in the model trial balance. Be very careful not to transpose figures in transferring the footings from the ledger to the trial balance.

Trial Balance, May 9, 19-

<i>J. D. Sims, Prop.</i>					
<i>Cash</i>				800	
<i>Merch.</i>	1001	75		281	25
<i>B. F. Parker</i>	41	475		320	
<i>Chas. Johnson</i>	217	50		262	50
	60	75		31	
	1694	75		1694	75

Illustration No. 11

66. If the item \$78.75 of May 4 is entered properly in the Cash account, but is entered as \$87.75 in the Merchandise account, what effect would it have on the trial balance?

67. Observe the transaction of May 7: "Sold Charles Johnson, on account, 20 yds. Empress cloth at \$1.35." If the amount had been entered to the debit of B. F. Parker instead of Charles Johnson, would it affect the trial balance? Why? In case of the above error would the accounts with Charles Johnson and B. F. Parker show the correct results?

68. If you have difficulty in getting your trial balance:

- (a) Verify the footings of the various accounts.
- (b) Verify the trial balance footing.
- (c) Determine whether a mistake has been made in transferring the footings to the trial balance.
- (d) Check the entries from the transactions to determine whether every debit has a credit. In doing this, place a small check mark (✓) in the folio column of the ledger account.

69. If the Empress cloth on hand, 80 yds., be inventoried at cost, \$1.05 a yd., and the Broadcloth, 40 yds., at \$2.10 a yd., the following may be deduced from the business as it now stands:

Statement, May 7, 19--

<i>Resources</i>			
<i>Cash on hand</i>		720 50	
<i>Mdse. Inventory</i>		178 50	
<i>Chas. Johnson</i>		29 75	928 75
<i>Liabilities</i>			
<i>B. F. Parker</i>			45
<i>Gain</i>			
<i>Mdse. Sales</i>	320.		
<i>Inventory</i>	178.50	498 50	
<i>Cost.</i>		414 75	
<i>J. D. Sims Investment</i>		8 00	
<i>" Net Gain</i>		83 75	

Illustration No. 12

70. Observe in the above statement that the present worth is determined in two ways:

- (a) The resources minus the liabilities equal the present worth.
- (b) The net gain of the business plus the original investment equals the present worth.

Exercise No. 7

71. In this exercise you are to keep an account with Cash, one with Merchandise, one with R. H. Brown, one with A. C. Hunt and a Proprietor's stock account. The title of this latter account will be written thus: (Student's name) Stock.

Dry Goods Transactions

May 1	Amount of cash on hand.....	\$250.00
May 1	Buy from R. H. Brown, on account, 90 yds. Irish Dimity at 42c.	37.80
May 1	Buy from A. C. Hunt, on account, 100 yds. Chambray at 36c.....	36.00
May 2	Buy for cash 40 yds. Messaline at 75c.....	30.00
May 5	Sell to R. H. Brown, on account, 50 yds. Chambray at 48c.....	24.00
May 6	Sell to R. H. Brown, on account, 20 yds. Messaline at \$1.00.....	20.00
May 6	Pay to A. C. Hunt cash to apply on account.....	12.00
May 7	Buy from R. H. Brown, on account, 40 yds. Satin Duchesse at 80c.....	32.00
May 7	Sell for cash 6 yds. Satin Duchesse at \$1.20.....	7.20
May 7	Sell to A. C. Hunt, on account, 45 yds. Irish Dimity at 60c.....	27.00
May 8	Sell for cash 10 yds. Satin Duchesse at \$1.20.....	12.00
May 8	Sell to A. C. Hunt, on account, 20 yds. Satin Duchesse at \$1.20.....	24.00
May 9	Buy from R. H. Brown, on account, 96 yds. Irish Dimity at 42c.....	40.32
May 9	Received cash from A. C. Hunt to apply on account.....	10.00
May 9	Pay R. H. Brown cash to apply on account.....	10.00
May 11	Sell to A. C. Hunt, on account, 60 yds. Irish Dimity at 60c.....	36.00
May 11	Pay cash for drayage.....	.75
May 12	Buy from A. C. Hunt, on account, 55 yds. Chambray at 36c.....	19.80
May 12	Sell for cash 20 yds. Chambray at 48c.....	9.60
May 13	Buy from R. H. Brown, on account, 20 yds. Satin Duchesse at 80c.....	16.00
May 14	Sell to A. C. Hunt, on account, 7 yds. Satin Duchesse at \$1.20.....	8.40
May 14	Receive from A. C. Hunt to apply on account.....	9.00
May 14	Pay cash to R. H. Brown to apply on account.....	15.00

72. Proceed with the work, following these directions:

- Take a trial balance, as previously instructed, and hand to your teacher.
- Find the number of yards of each kind of goods you have left on hand and figure the value of the inventory at the cost price.
- Find your total resources.
- Find your total liabilities.
- From these facts find your present worth.
- Find your gain.
- Add this to your investment.
- Make a statement of your business, using the form shown in Section 69, and hand to your teacher.

73. Answer the following questions in writing and hand to your teacher:
- (a) Mention in logical order, the steps to be followed in taking a trial balance.
 - (b) What is the purpose of the trial balance?
 - (c) Where may errors occur which would prevent a balance?
 - (d) Indicate an error which would not prevent a balance.
 - (e) What is meant by resource? Liability?
 - (f) In what two ways may the proprietor's present worth be determined?
 - (g) What is meant by net gain?
 - (h) Is your worth increased or diminished by adding your net gain to your investment?
 - (i) How would a net loss affect your worth?

Sixth Lesson

Bills Receivable Account

74. A *promissory note* is the written promise of one person to pay to another or to his order a certain sum of money at a certain specified time.

75. The party who promises to pay is known as the *maker*; the party in whose favor the promise is made is called the *payee*.

Form of Promissory Note

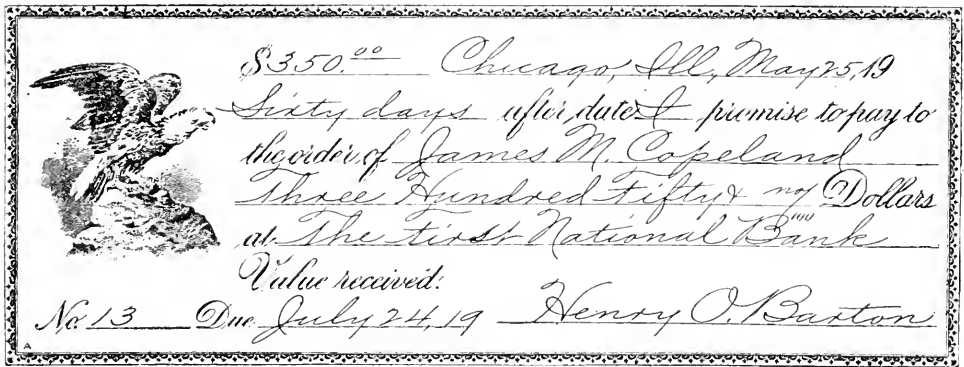


Illustration No. 13

76. A *draft* is a written order of one party directing a second party to pay to a third party, or his order, a certain sum of money at a certain time.

77. There are three parties to a draft: the *drawer*, the *drawee* and the *payee*.

78. The drawer is the person who issues the draft. The drawee is the person who is directed to pay it. The payee is the one in whose favor it is made.

Form of Accepted Time Draft

8819.75		Chicago, June 14, 189	
Thirty days after sight		Pay to	
the order of Leon A. Emerson			
Eight Hundred Nineteen & 75/100 Dollars		With Exchange	
Value received, and charge the same to account of			
To George Cummings		Conrad & Butler	
No. 114 Osgood, Iowa		By O.M. Conrad	

Illustration No. 14

79. A time draft is accepted when the drawee writes across the face of the draft "accepted," the date and his name. By this act he obligates himself to pay it when due and the draft is then called an "acceptance."

80. Notes and due bills signed by other persons and time drafts on other persons, after being accepted by them, are *Bills Receivable* to the person holding them.

81. The illustration on the next page shows the manner of keeping a Bills Receivable account and the purpose for which it is kept. Observe the entry for each transaction.

Transactions with Bills Receivable

May 2	Received Harvey Ellison's note in payment for merchandise.....	\$210.40
May 3	Received James Barnes' note for.....	80.00
May 7	Harvey Ellison paid his note due today, in cash.....	210.40
May 9	Received D. L. Hart's note for bill of goods.....	89.40
May 14	James Barnes paid on his note.....	50.00
May 16	Received J. L. Martin's acceptance for merchandise.....	160.00
May 17	James Barnes paid balance due on his note.....	30.00
May 19	Received from Chas. Adams his note in payment for merchandise.....	64.00
May 20	D. L. Hart paid his note, due today, in cash.....	89.40

Bills Receivable

19- May 2		21040	19- May 7		21040
3		80	14		50
9		8940	17		30
16		160	20		8940
19		64			
		60380			60380
May 20	Balance	224			

Illustration No. 15

82. Deductions made from the foregoing transactions:

- The Bills Receivable account is debited for the face of the note or acceptance received from others.
- The account is credited when bills receivable are paid or disposed of.
- When a part payment is made the account is credited for the amount of the payment only.
- The balance, or difference, between the two sides of the account represents the amount of bills receivable on hand.

83. Be prepared to answer these questions:

- What does the debit side of the Bills Receivable account show?
- What does the credit side show?
- What is the purpose of the account?
- Which side of the account must always be the larger and why?
- Does this account show a resource or a liability and why?

Exercise No. 8

84. On a sheet of ledger paper prepare a Bills Receivable account from the following transactions.

Transactions with Bills Receivable

June 1	Received from Geo. Haynes, for merchandise, his note for.....	\$120.00
June 2	Received Geo. Harper's acceptance at 5 days, on account.....	65.00
June 4	Received from Geo. Haynes part payment on his note.....	75.00
June 6	Received from E. J. Clark, for merchandise, his note for.....	87.50
June 6	Received from Geo. H. Harper, in payment for his acceptance, cash.....	65.00

87. Deductions made from the foregoing transactions:
- (a) When we issue our written promises to pay, Bills Payable account is credited.
 - (b) When we pay our written promises, Bills Payable account is debited.
 - (c) When we make a part payment the account is debited only for the amount paid.
 - (d) The difference between the two sides of the account will be the amount we still owe on account of written promises outstanding.
88. Be prepared to answer these questions:
- (a) What does the credit side of the Bills Payable account show?
 - (b) What does the debit side show?
 - (c) What does the balance represent?
 - (d) What is the purpose of the account?
 - (e) Which side of the account must be the larger and why?
 - (f) Does the above account show a resource or a liability and why?
89. To balance Bills Receivable and Bills Payable accounts:
- (a) In red ink on the smaller side of the account write the difference, or *balance*, as shown in the model accounts illustrated in Sections 81 and 86.
 - (b) Draw a single red line across the money column; then foot the account, after which draw the two-line ruling exactly as illustrated in the models.
 - (c) Next bring the balance down below the two-line ruling. If it is necessary to transfer the account to a new page the balance should be carried to the proper side of the new account and not brought below the ruling of the old account.
90. Some bookkeepers prefer never to balance the Bills Receivable and Bills Payable accounts except when they are to be transferred to a new page. However, as registers called the *Bills Receivable Book* and the *Bills Payable Book* are usually kept for the purpose of recording all details concerning each individual note, there is no serious objection to balancing these accounts at any time.

Exercise No. 9

91. On a sheet of ledger paper prepare a Bills Payable account from the transactions given on the next page.

Transactions with Bills Payable

June 1	Gave the Parsons & Scoville Co my note for invoice of groceries.....	\$234.60
June 2	Accepted a 5 day sight draft in favor of Simmons Hardware Co.....	85.35
June 4	Gave Ragon Bros. my note for invoice of groceries.....	62.75
June 7	Made part payment on my note in favor of the Parsons & Scoville Co.....	100.00
June 7	Paid my acceptance in favor of Simmons Hardware Co.....	85.35
June 7	Gave the Clifford Hardware Co. my note for invoice of hardware.....	63.80
June 10	Paid balance due on note in favor of the Parsons & Scoville Co.....	134.60
June 13	Gave to Mackey-Nisbet Co. to settle account, my note for.....	85.00
June 13	Paid my note in favor of Ragon Bros.....	62.75

Balance and rule the account. Bring the balance down and proceed with the following:

June 15	Gave to Ragon Bros. my note for invoice of groceries.....	\$ 74.20
June 15	Paid my note in favor of the Clifford Hardware Co.....	63.80
June 20	Gave the Simmons Hardware Co. my note for invoice of goods.....	45.60
June 22	Paid my note in favor of the Mackey-Nisbet Co.....	85.00
June 23	Gave my note to the Igleheart Milling Co. for invoice of flour.....	87.50

Balance and rule the account and hand it to your teacher.

92. Students should not confuse Bills Payable and Bills Receivable with bills of goods bought or sold. When the purchaser buys goods he is given a bill which he calls an invoice; to the seller this is called a bill. Bills Receivable and Bills Payable relate wholly to commercial paper in the form of some kind of a written promise to pay, an ordinary note being the most common. If the written promise is in your favor, or is given to another person and transferred to you, it is a Bills Receivable. If the written promise is given by you, it is a Bills Payable. Notes may be transferred from one person to another by indorsement

93. Answer the following questions in writing and hand to your teacher:

- (a) What is the purpose of the Bills Payable account?
- (b) Can the debit side of the Bills Payable account ever show an excess over the credit?
- (c) When will it be in balance?
- (d) Write a rule for the debit and credit of the Bills Payable account.
- (e) What is the purpose of the Bills Receivable account?
- (f) When will it be in balance?
- (g) Write a rule for the debit and credit of the Bills Receivable account.

Seventh Lesson

The Expense Account

94. By the term *expense* is meant any item of cost in carrying on a business, such as rent, clerk hire, taxes, light, fuel, postage, advertising, etc.

95. When it is desired to show in a single amount the outlay for the leading expense items such as rent, salaries, labor, advertising, lighting, postage, etc., separate accounts should be opened for each.

96. The following illustration shows the manner of keeping the account and the purpose for which it is kept. Read the transactions and observe carefully the entry for each.

Transactions Illustrating Expense Account

May 2	Paid cash for store rent one month.....	\$10.00
May 2	Paid cash for stationery.....	2.00
May 4	Paid cash for postage stamps.....	4.00
May 5	Bought coal for our own use.....	12.00
May 7	Sold for cash a part of the above lot of coal.....	3.00
May 9	Paid cash for clerk hire.....	7.00
May 10	Rented for cash one-half our storeroom for remainder of month.....	5.00

Expense									
19-	May	2	Rent	10	May	7	Coal		3
		2	Stationery	2		10	Rent		5
		4	Postage	4					
		5	Coal	12					
		7	Salary	7					
				35					35

Illustration No. 17

97. Deductions made from the above transactions:

- (a) The Expense account is debited for all outlays necessary to carry on the business.

- (b) The account is credited for the returns from anything which has previously been debited to expense.
 - (c) The account always shows a loss.
98. Closing the Expense account:
- (a) On the credit side in red ink write the difference between the two sides and designate it as loss. Next rule and foot the account. Study carefully the method as shown in the model account.
 - (b) Note that the loss is not brought below the ruling. It will be transferred to a "loss and gain" account which will be more fully explained in another lesson.

Exercise No. 10

99. In this exercise you will keep accounts with Cash, Merchandise, Expense, Bills Payable, Bills Receivable, Marshall Field & Co., Carson, Pirie, Scott & Co., E. J. Clark, J. B. Miller, E. H. Hill and the proprietor.

The manner of doing the work is the same as that shown in the illustration, Fifth Lesson, Sec. 61, only more accounts are involved. Every time an account is debited there must be a credit for exactly the same amount.

Transactions for the Dry Goods Business

- May 2 Student began the dry-goods business with a cash investment of \$900.00. (Debit cash account, credit your stock account).
- May 2 Bought from Marshall Field & Co., on account, 800 yds. Silk Organdie at 22c.
- May 2 Bought from Carson, Pirie, Scott & Co., on account 10 days, 500 yds. Persian Lawn at 15c.
- May 3 Paid cash for rent of store, \$25.00.
- May 3 Bought from Mandel Brothers, and gave in payment my note, 650 yds. White Mull at 17c.
- May 4 Sold to E. J. Clark, on account, 370 yds. Silk Organdie at 29c.
- May 4 Bought on account from Marshall Field & Co., 1000 yds. English Madras at 19c.
- May 5 Paid cash for stationery and stamps, \$15.00.
- May 6 Sold to E. J. Coons for his note, 450 yds. White Mull at 22c.
- May 6 J. B. Miller bought on account, 540 yds. English Madras at 32c.
- May 7 Sold for cash 275 yds. Persian Lawn at 19c.
- May 7 Paid cash to Marshall Field & Co., to apply on account, \$150.00.
- May 9 Received from J. B. Miller note to pay for goods sold to him May 6.

100. The effect of receiving this note is simply to postpone the payment of J. B. Miller's account. However, the note is written evidence of the debt, and is preferable to the open account.

As this payment closes the account, you will rule it. There being only one item on each side, it is ruled by drawing double rulings underneath the amounts

across the money and the date columns. Do not draw the double rulings across the explanation columns.

- May 9 Bought from Stewart Dry Goods Co., for cash, 1500 yds. White Pearline Batiste at 30c.
- May 10 Sold to E. J. Clark, on account, 300 yds. Silk Organdie at 29c; 200 yds. English Madras at 32c.
- May 11 Paid cash for my note favor of Mandel Bros., given on the third inst.
- May 12 Sold to E. H. Hill, on account, 900 yds. White Pearline Batiste at 40c.
- May 12 Gave Carson, Pirie, Scott & Co., my note to pay for invoice of the second inst.
- May 13 Bought for cash 6 office chairs at \$4.00.
- May 13 E. J. Clark paid cash on account, \$175.00
- May 14 Bought from Carson, Pirie, Scott & Co., 700 yds. Silk Organdie at 22c.
- May 14 A. J. Coons paid cash for his note of the 6th inst.
- May 14 Sold to E. J. Clark, on account, 560 yds. white Pearline Batiste at 40c.
- May 16 Bought from Marshall Field & Co., on account, 250 yds. White Mull at 17c.
- May 16 Sold for cash, 2 office chairs at \$3.75.
- May 17 Gave Marshall Field & Co. my note for \$190.00 on account.
- May 17 Sold to E. H. Hill 400 yds. Silk Organdie at 29c.
- May 17 Received from E. J. Clark cash in full of account.
Note: When an account is paid in full it should be ruled.
- May 18 Bought from Marshall Field & Co., 400 yds. White Pearline Batiste at 30c.
- May 19 Sold to John Stark for his note, 200 yds. White Mull at 22c.
- May 19 Sold to J. B. Miller, on account, 500 yds. Silk Organdie at 29c.
- May 20 Bought from Carson, Pirie, Scott & Co., on account, 350 yds. white Pearline Batiste at 30c.
- May 20 Paid Marshall Field & Co. cash in full of account.
- May 21 Received from J. B. Miller cash on account, \$50.00.
- May 21 Received cash from E. H. Hill for bill sold him on the 12th inst.
- May 21 Paid cash for my note favor Carson, Pirie, Scott & Co., given on the 12th inst.
- May 23 Sold for cash, 100 yds. white Pearline Batiste at 40c.
- May 23 Sold for cash 150 yds. Silk Organdie at 29c.

101. Proceed as follows:

- (a) Take a Trial Balance as instructed in the Fifth Lesson, Section 65.

Note: In case you fail to get the balance follow the directions given in the Fifth Lesson, Section 68.

- (b) Balance the Cash account.
- (c) Inventory the merchandise on hand at cost.
- (d) Determine your Resources.
- (e) Determine your Liabilities.
- (f) Determine your Present Worth.
- (g) Determine your gain on Merchandise. See Second Lesson, Section 27.
- (h) The Expense account shows a loss. How much?

LOCKYEAR'S BOOKKEEPING

- (i) The gain less the loss equals the Net Gain. How much?
 (j) The Net Gain plus the amount of cash you had on hand at the beginning of business equals what?

Note: This last amount must agree with the difference between the resources and the liabilities.

- (k) On a sheet of journal paper make a statement using the form shown in Illustration No. 18. Do not lose sight of the fact that good mechanical work is essential.
 (l) Hand the Trial Balance, Statement, and Ledger Accounts to your teacher for inspection.

Statement, May 23, 19-

<i>Resources</i>				
<i>Cash</i>				
<i>Merch Inventory</i>				
<i>Bills Receivable</i>				
<i>J. B. Miller</i>				
<i>E. H. Hill</i>				
<i>Liabilities</i>				
<i>Marshall Field & Co</i>				
<i>Casson, Pirie, Scott & Co</i>				
<i>Bills Payable</i>				
<i>Gain</i>				
<i>Merch Sales</i>				
<i>" Invtry.</i>				
<i>" Cost</i>				
<i>Loss</i>				
<i>Expense</i>				
<i>Students Net Investment</i>				
<i>" " Gain</i>				

Illustration No. 18

102. Answer the following questions in writing and hand to your teacher:
- (a) Write the rules for debiting and crediting Expense.
 - (b) What is the purpose of the Expense account?
 - (c) How is the Net Gain of a business determined?
 - (d) When the Net Gain is known how is the Present Worth determined?
 - (e) In case one fails to get a trial balance what steps should be taken to locate the error?

Rules of Debit and Credit

103. Up to this point your work has covered a study of the following accounts: Cash, Merchandise, Personal, Bills Receivable, Bills Payable and Expense.

Rules of Debit and Credit for these accounts are here given for reference. It is not advised that they be memorized at this time, but they should be remembered because they will be used and referred to hereafter.

Cash

104. Debit Cash.
- (a) For amount of cash on hand at beginning of business.
 - (b) For all cash received.
105. Credit Cash.
- For all cash paid out.

Merchandise

106. Debit Merchandise.
- (a) For the inventory or stock of goods on hand at the beginning of business.
 - (b) For all Merchandise bought.
 - (c) For Merchandise which is returned to us after having been credited to Merchandise.
 - (d) For all charges, such as freight, drayage, etc., unless separate accounts are kept.
107. Credit Merchandise.
- (a) For all Merchandise Sales.
 - (b) For goods returned by us after having been charged to Merchandise.
 - (c) For Merchandise used for private purposes.
 - (d) For money received for Merchandise which has been damaged or destroyed.

Expense

108. Debit Expense.
 (a) For what is bought to be consumed or used in carrying on the business.
 (b) For cost of rents, fuel, light, advertising, salaries, etc., when not charged to other accounts.
109. Credit Expense.
 For anything which is sold that has previously been charged to expense.

Bills Receivable

110. Debit Bills Receivable.
 For notes, time drafts, or any other written obligations received from others.
111. Credit Bills Receivable.
 For notes, time drafts, or any other written obligations of others when they are paid, discounted or disposed of in any manner.

Bills Payable

112. Debit Bills Payable.
 For our notes, acceptances, or any other written obligations when they are paid.
113. Credit Bills Payable.
 For our notes, acceptances, or any other written obligations when they are given.

Personal Accounts

114. Debit Persons.
 (a) For what they owe you at the time of opening the account.
 (b) For any goods or property sold them on account.
 (c) For all cash paid them on account.
115. Credit Persons.
 (a) For what you owe them at the time of opening the account.
 (b) For all goods or property you buy of them on account.
 (c) For all payments received from them on account.

Eighth Lesson

The Proprietor's Investment Account

116. As was stated in the Fifth Lesson, Section 59, it is necessary to keep a *proprietor's investment account* with the person who owns the business, or with each partner, if it be a partnership business. At that point only the purpose of the account was stated; at this time it is desired to deal with the account more fully, and the following illustrations, if carefully studied, will show the object and the manner of keeping it.

Transactions Illustrating the Proprietor's Account

117. It is assumed that A. J. Harter is the proprietor and that his investment amounts to \$800.

May 2	Amount of investment.....	\$800.00
May 5	He withdrew cash from business for personal use.....	10.00
June 7	He took from the business for family use merchandise amounting to.....	7.00
June 12	He took cash from the cash drawer to pay house rent.....	9.50
July 16	He invested in the business.....	200.00
July 20	He took from the business for family use merchandise amounting to.....	6.80
July 30	On this date it has been determined that the net gain of the business amounts to	120.00

118. After the net gain has been entered on the credit side of the proprietor's account, the account is closed so as to show in a single amount the present worth of the proprietor.

Observe the following:

The total investment is how much?

The total withdrawal is how much?

The present worth is determined how?

Continue the account with the following transactions:

August 6	A. J. Harter makes another cash investment.....	\$300.00
August 20	He takes cash from the drawer to pay house rent.....	12.00
Sept. 1	He pays a private debt amounting to.....	6.00
Sept. 27	He invests cash in the business.....	80.00
Oct. 12	He takes cash from the drawer for personal expenses.....	13.75
Oct. 30	At this time it has been found that the business shows a loss of.....	26.80

119. Observe the manner of entering the loss as illustrated in the model account. Note how this differs from the manner of entering a gain.

Observe the following:

Total of the investment, plus the present worth July 30, is how much?

The cash withdrawn is how much?

The cash withdrawals, plus the net cost of goods withdrawn, is how much?

How is the present worth found?

A. J. Hartes, Proprietor

May 19	5			10	May 2		8 00
June 7				7	June 16		2 00
July 12				950	July 30 Net Gain		120
20				680			
				1120			1120
Aug. 20				12	July 30 Pres. Worth		1086 70
Sept. 1				6	Aug. 6		3 00
Oct. 12				1375	Sept 27		80
30 Net Loss				2680			
				1466 70	Oct. 30 Pres. Worth		1466 70
							1408 15

Illustration No. 19

120. Deductions made from the foregoing transactions:

- The proprietor is credited in his account for all that he invests in the business.
- He is debited for all withdrawals of cash or property for personal use.
- He is credited for the net gain.
- He is debited for the net loss.
- His present worth is the difference between the two sides of the account after the net gain or the net loss has been properly entered.

121. Manner of closing the investment account:

- The net gain is entered on the credit side by writing the date, net gain and the amount.

- (b) Next write in red ink on the debit side of the account the date, present worth and amount.
- (c) If there is a net loss it is entered on the debit side, after which the account is balanced as shown in the latter part of Illustration No. 19.
- (d) After footing and ruling the account the present worth is brought down on the opposite side of the account in black ink.

Study carefully the model ledger form for A. J. Harter.

Investment Account in a Partnership Business

122. If a business is conducted by two or more partners, separate accounts are kept, each partner being credited with his investments and with his share of the net gain, if the business shows a gain; and debited with withdrawals and with his share of the net loss, if the business shows a loss. Each partner is also debited with all personal debts assumed or paid by the business.

Transactions Illustrating Partnership Accounts

May 2	J. W. Carter invests.....	\$1,800.00
May 2	M. C. Harmon invests.....	2,000.00
May 5	J. W. Carter took from the business for family use merchandise amounting to	12.85
May 19	M. C. Harmon took cash from the drawer to pay house rent.....	15.00
June 1	J. W. Carter invests in the business.....	200.00
June 20	M. C. Harmon took from the business for family use merchandise amounting to	13.70
June 27	Paid a personal bill for J. W. Carter.....	85.00
July 1	Paid premium on insurance policy for M. C. Harmon.....	35.45
July 30	On this date it is determined that the gain for the three months amounts to	278.00

J. W. Carter, Partner

May 5	1285	May 2	1800
June 27	85	June 1	200
		July 31 1/2 Net Gain	139
	2139	Aug 1 Pres. Worth	2041.15

Illustration No. 20

M. C. Harmon, Partner

<i>May 19</i>		<i>15</i>	<i>May 2</i>		<i>2000</i>
<i>June 20</i>		<i>1370</i>	<i>July 31</i>	<i>1/2 Net Gain</i>	<i>139</i>
<i>July 1</i>		<i>3645</i>			
		<i>2139</i>	<i>Aug 1</i>	<i>Pres. Worth</i>	<i>2139</i>
					<i>2073 85</i>

Illustration No. 21

123. Observe:

- That the partners are debited with withdrawals from the business, and with private debts paid by the business.
- That they are credited with the amounts invested, and for one-half the gain each.

Exercise No. 11

124. On a sheet of ledger paper enter the following transactions. The proprietors are Geo. Thurman and F. G. Johns.

Partnership Transactions

May 2	Geo. Thurman invests.....	\$2,200.00
May 2	F. G. Johns invests.....	2,500.00
May 10	Geo. Thurman took from the business for family use merchandise amounting to	13.25
May 12	Paid for repairing F. G. Johns' dwelling house, cash.....	42.80
May 18	Geo. Thurman drew from the business for personal use, cash.....	12.00
June 14	Geo. Thurman invests in the business, cash.....	300.00
June 21	F. G. Johns drew from the business for private use, cash.....	30.00
June 30	F. G. Johns owed a note of \$38 due on this date. This amount was paid with cash taken from the drawer.	
July 2	Geo. Thurman takes cash from the drawer to pay a private bill.....	18.25
July 18	F. G. Johns took from the business for family use merchandise amounting to	9.60
July 30	On this date the books show a gain for the three months of \$680.40 which, according to the agreement, is to be divided equally between the partners.	

125. Determine the present worth of each partner and balance and rule the accounts. When completed hand to your teacher for approval.

126. When unable to pay his debts, a person is said to be insolvent. The debit side of the proprietor's account will be the greater if he is insolvent.

Interest and Discount Account

127. *Interest* is a premium allowed for the use of money.

128. *Discount* is an amount deducted from the face of the note, bill or personal account, the deduction being made to induce persons to pay their obligations before due.

A borrower sometimes receives less than the face of his note, this deduction being known as discount.

129. *Interest* and *discount* are debited when a loss to the business, and credited when a gain.

130. A careful study of the following illustrations will disclose the purpose for which the Interest and Discount account is kept and the manner of keeping it. Read each transaction and observe how it is entered. Assume that you are the proprietor.

Transactions Illustrating the Interest and Discount Account

- May 2 J. W. Stevens pays his note, face \$180, in my favor, with interest amounting to \$10.80.
- May 3 J. W. Stock owes me on account \$80 due July 1. I accept \$75 on this date in full of account. Discount \$5.
- May 9 I give my note to the Old National Bank for \$78, the proceeds of which were \$75. Discount \$3.
- May 10 B. F. Moore pays his note, face \$60, in my favor, with interest amounting to \$2.80.
- May 14 I owe the Parsons & Scoville Co. a bill of \$90.50 due June 1. They accept \$88 in full of account. Discount \$2.50.
- May 17 R. D. Newton owes me an account \$32.75 due July 1. I accept \$31.00 in full of account. Discount \$1.75.
- May 20 J. W. Baldwin pays his note, face \$180, in my favor, with interest amounting to \$12.80.
- May 21 I pay my note in favor of Mackey-Nisbet Co., face \$108.50, with interest amounting to \$7.40.
- May 25 S. W. Hart owes me on account \$45 due June 25. I accept \$42.75 in full of account. Discount \$2.25.

Interest & Discount

Interest & Discount				Interest & Discount			
May 3	Disc. Allowed by me	5	May 2	Int. Recd		10 80	
9	Disc. Paid	3	10	"		2 80	
17	" Allowed by me	1 75	14	Disc. Allowed to me		2 50	
21	Int. Paid	7 40	20	Int. Recd		12 80	
25	Disc. Allowed by me	2 25					

Illustration No. 22

Note: The explanations "Int. paid," "Disc. allowed," etc., are not a necessary part of the account, but are used to enable the student to understand the account.

131. Answer the following questions in writing and hand to your teacher:

- (a) Write the rules for debiting and crediting Interest and Discount.
- (b) What does the debit footing represent?
- (c) What does the credit footing represent?
- (d) Does the difference represent a resource, a liability, a loss or a gain?
- (e) Copy the account on a sheet of ledger paper, balance, and rule it, and hand to your teacher.

132. There is a distinction between interest and discount on commercial paper, and discounts allowed for paying a bill of goods before the expiration of the term of credit and discounts allowed on personal accounts. The latter two properly belong to the Merchandise account. If it is desired to know the exact amount of loss or gain due to such allowances, an account may be opened under the title "Merchandise Discount." If this account is not kept, the discount may be entered direct to the Merchandise account.

Exercise No. 12

133. Interest and the various kinds of discounts are often kept in one account under the title "Interest and Discount." You will observe this method in the preparation of an Interest and Discount account from the transactions given below.

Transactions with Interest and Discount

- May 2 I owe the Parsons & Scoville Co., on account, \$47.50, due June 1. I pay them \$46 in full of account. Discount \$1.50.
- May 3 I give my note at the Old National Bank for \$97.50; the proceeds are \$95, the interest \$2.50.
- May 5 I pay my note favor J. A. Slocum, face \$190, with interest amounting to \$12.90.
- May 7 A. L. Ford owes me on account, due June 10, \$28.95. I accept \$26 in full of account. Discount \$2.95.
- May 12 C. F. Jones pays his note in my favor, face \$237, with interest amounting to \$23.45.
- May 14 I discount Chas. Munford's note at the bank, face \$180. Amount of discount \$6.40.
- May 17 I owe the Mackey-Nisbet Co., on account, due June 1, \$76.80. I pay them \$72 in full of account. Discount \$4.80.
- May 20 J. W. Stone pays his account, \$38.75, which was due Feb. 15. Interest on same 90c.
- May 24 I hold C. W. Johnson's note for \$400, due Aug. 1, without interest. I allow a discount of \$18 and he pays it on this date.
- May 27 I buy a bill of goods from the Parsons & Scoville Co. amounting to \$128.40, due in 30 days. I pay on this date and am allowed a discount of 3 per cent.

Balance and rule the account.

134. Answer the following questions in writing and hand to your teacher:
- (a) The interest paid by you and the discounts allowed by you amount to what?
 - (b) The interest paid to you and the discounts allowed to you amount to what?
 - (c) Is the difference between the two a gain or a loss?

Rules of Debit and Credit

135. The following rules for debit and credit of the Proprietor's investment account and Interest and Discount account are for reference. They should be remembered, but it is not necessary to memorize them.

Proprietor's Investment Account

136. Debit the Proprietor.
- (a) For all amounts withdrawn from the business.
 - (b) For all debts assumed or paid by the business for him.
 - (c) For the net loss of the business.
137. Credit the Proprietor.
- (a) For amounts invested.
 - (b) For the net gain of the business.

Interest and Discount

138. Debit Interest and Discount.
- (a) For interest paid.
 - (b) For discount allowed by you.
139. Credit Interest and Discount.
- (a) For interest received.
 - (b) For discount allowed to you.

Ninth Lesson

Interest Bearing Notes and Compound Entries

140. *Promissory notes* bear interest only when so stated or after they are due.

141. No entry is made for interest or discount until received or paid.

142. The following transactions illustrate the manner of entering Bills Payable and Bills Receivable when they bear interest. Read each transaction carefully and notice how it is entered in the model accounts.

Transactions Illustrating Interest Bearing Notes

- Jan. 2 Give your note, favor Geo. Thomas, for three months, interest at 6 per cent, for \$800.
 Jan. 9 Receive from J. W. Wilson his note in your favor, for 1 mo., at 6 per cent, for \$900.
 Feb. 4 Give your note, favor Jas. Klein, for 2 mo., interest at 6 per cent, for \$400.
 Feb. 7 Receive from S. W. Harris his note, in your favor, for 1 mo., at 6 per cent, for \$300.
 Feb. 9 J. W. Wilson pays his note, \$900, due this date, with interest \$4.50.

Note: Observe that Bills Receivable is credited with \$900 and that Interest and Discount is credited with \$4.50.

- Mar. 6 Give your note, favor Geo. Willis, for 3 mo., interest at 6 per cent, for \$200.
 Mar. 7 S. W. Harris pays his note, \$300, due this date, with interest amounting to \$1.50.
 Mar. 27 Receive from J. A. Burns his note, in your favor, for 3 mo., at 6 per cent, for \$700.
 Apr. 2 Pay your note in favor of Geo. Thomas, \$800, with interest amounting to \$12.
 Apr. 4 Pay your note in favor of Jas. Klein, \$400, due this date, with interest amounting to \$4.
 June 6 Pay your note in favor of Geo. Willis, \$200, due this date, with interest amounting to \$3.
 June 27 J. A. Burns pays his note \$700, due this date, with interest amounting to \$10.50.

Bills Payable

<i>Apr. 2</i>		<i>800</i>		<i>Jan 2 3 mos 6% 4 1/2</i>	<i>800</i>
<i>Apr. 4</i>		<i>400</i>		<i>Feb. 4 2 " 6% 4 1/2</i>	<i>400</i>
<i>June 6</i>		<i>200</i>		<i>Mar 6 - " 6% 4 1/2</i>	<i>200</i>

Illustration No. 23

<i>Bills Receivable</i>					
<i>Jan</i>	<i>1 mo 6%</i>	<i>7/9</i>	<i>900</i>	<i>Feb 9</i>	<i>900</i>
<i>Feb</i>	<i>1 " 6%</i>	<i>3/7</i>	<i>300</i>	<i>Mar 7</i>	<i>300</i>
<i>Mar</i>	<i>27 3 " 6%</i>	<i>4/27</i>	<i>700</i>	<i>June 27</i>	<i>700</i>

Illustration No. 24

<i>Interest & Discount</i>					
<i>Apr 2</i>		<i>12</i>	<i>Feb 9</i>		<i>4.50</i>
<i>4</i>		<i>4</i>	<i>Mar 7</i>		<i>1.50</i>
<i>June 6</i>		<i>3</i>	<i>June 27</i>		<i>10.50</i>

Illustration No. 25

143. Deductions made from the foregoing transactions:

- (a) Bills Payable is credited with the face of the note when given out.
- (b) Bills Payable is debited when all or part of our note is paid.
- (c) Interest and Discount account is debited with the amount of interest paid.
- (d) Interest and Discount account is credited with the amount of interest received.
- (e) Bills Receivable is debited with the face of the note when received.
- (f) Bills Receivable is credited with the face of the note when paid or disposed of.

144. It has been previously stated that the Bills Payable account is kept for the purpose of showing at any time the amount of outstanding bills payable; and that the Bills Receivable account is kept for the purpose of showing at any time the amount of bills receivable on hand. From this it is obvious that in case of an outstanding note being paid, Bills Payable must be debited with the face of the note and not with the amount; and that when a bill receivable is paid the Bills Receivable account must be credited with the face of the obligation and not with the amount.

Exercise No. 13

145. From the transactions given below you are to prepare Bills Payable, Bills Receivable and Interest and Discount accounts.

Transactions with Interest Bearing Notes

- June 1 Give your note, favor Jas. Harvey, for 2 mo., interest at 6 per cent, for \$500.
June 13 Receive from J. W. Wilson, his note, in your favor, for 2 mo., at 6 per cent, for \$700
June 28 Give your note, favor A. L. Tyner, for 3 mo., interest at 6 per cent, for \$300.
July 1 Receive from S. W. Harris, his note, in your favor, for 2 mo., at 6 per cent, for \$200.
July 14 Give your note, favor Geo. Thomas, for 2 mo., at 6 per cent, for \$250.
Aug. 1 Pay your note, in favor of Jas. Harvey, \$500, with interest amounting to \$5.
Aug. 2 Receive from J. A. Harmon, his note in your favor, for 1 mo., at 6 per cent, for \$800.
Aug. 13 J. W. Wilson pays his note, \$700, due this date, with interest amounting to \$7.
Aug. 30 Give your note, favor Jas. Klein, for 1 mo., at 6 per cent, for \$1,000.
Sept. 1 S. W. Harris pays his note, \$200, due this date, with interest amounting to \$2.
Sept. 2 J. A. Harmon pays his note, \$800, due this date, with interest amounting to \$4.
Sept. 4 Receive from J. A. Burns, his note, in your favor, for 1 mo., at 6 per cent, for \$900.
Sept. 14 Pay your note, \$250, favor Geo. Thomas, with interest amounting to \$2.50.
Sept. 28 Pay your note, \$300, favor A. L. Tyner, with interest amounting to \$4.50.
Sept. 30 Pay your note, \$1,000, in favor Jas. Klein, with interest amounting to \$5.
Oct. 4 J. A. Burns pays his note, \$900, due this date, with interest amounting to \$4.50.

146. Observe the following:

Does the Interest and Discount account show a gain or loss?

How much?

Balance the account by writing the loss or gain in the proper place in red ink.

Hand the work to your teacher.

Compound Entries

147. *Compound entries* are those affecting more than two accounts.

Thus far in applying the principle of double entry, there have been only two accounts involved in each transaction.

148. Transactions may require:

- (a) One debit and one credit.
- (b) One debit and two or more credits.
- (c) Two or more debits and one credit.
- (d) Two or more debits and two or more credits.

In either of the above cases, the sum of the debit items must equal the sum of the credit items.

149. The purpose of the following illustration is to show the manner of making compound entries, particularly

(a) When interest bearing notes are paid.

(b) When discounts are allowed on personal accounts.

150. Study carefully the entry for each transaction by referring to the model accounts.

Transactions Illustrating Compound Entries

May 2 Amount of cash on hand \$800.

May 2 Buy invoice of groceries from Parsons & Scoville, on account 30 days, amounting to \$180.

May 2 Buy invoice of hardware from the Clifford Hardware Co., amounting to \$300, for your note at 30 days, with interest at 8 per cent.

May 5 Sell to J. B. Reed, on account 60 days, groceries amounting to \$45.40.

May 7 Buy from Parsons & Scoville, on account 60 days, invoice of groceries amounting to \$300.

May 7 Sell to Chas. Adams merchandise amounting to \$38.75 for his note at 8 per cent, due in 60 days.

May 9 Pay cash, \$175, for invoice of groceries bought from Parsons & Scoville, on May 2, a discount of \$5 being allowed.

150a. Observe that the above transaction affects three accounts, requiring a Compound Entry—Parsons & Scoville must be debited with the full amount of the bill \$180, while Cash must be credited with \$175, and Interest and Discount credited with \$5. Observe that the underlying principle of Double Entry book-keeping, "every debit must have an equal credit," is not violated by this entry as the two "credits" equal the one "debit." Why should Parsons & Scoville be debited for \$180 instead of the amount paid them?

May 10 Buy invoice of merchandise amounting to \$90 for your note at 60 days with interest at 8 per cent.

May 25 Sell to J. B. Reed, on account 30 days, merchandise amounting to \$50.75.

May 25 Sell to W. J. Carter merchandise amounting to \$60 for his note due in 30 days, with interest at 8 per cent.

June 2 Pay your note, \$300, in favor the Clifford Hardware Co., with interest amounting to \$2.

Note: Observe that the above transaction affects three accounts. Cash is credited with \$302, Bills Payable is debited with \$300, and Interest and Discount is debited with \$2.

June 4 J. B. Reed pays cash, \$42, for bill of goods bought May 4, a discount of \$3.40 being allowed.

June 6 Pay Parsons & Scoville cash, \$290, for invoice of groceries purchased May 7th, a discount of \$10 being allowed.

June 7 J. B. Reed pays cash, \$49, for bill of goods bought May 25, a discount of \$1.75 being allowed.

June 25 J. W. Carter pays cash for his note of \$60 with 40c interest.

July 7 Chas. Adams pays cash for his note of \$38.75 with 52c interest.

July 10 Pay cash for your note of \$90, dated May 10, with \$1.20 interest.

Cash

May	2	800	May	4	175
June	4	42	June	2	302
	7	49		6	290
	25	6040	July	10	9120
July	27	3927			
<i>Merchandise</i>					
May	2	180	May	4	11540
	2	300		7	3875
	7	300		25	5075
	10	90		25	60
<i>Bills Payable</i>					
June	2	300	May	2	300
July	10	90		10	90
<i>Bills Receivable</i>					
May	7	3875	June	25	60
	25	60	July	7	3875
<i>Interest & Discount</i>					
June	2	2	May	9	5
	4	340	June	6	10
	7	175		25	40
July	10	120	July	7	52
<i>J. B. Reed</i>					
May	4	4540	June	4	4540
	25	5075		7	5070
<i>Parsons & Scoville</i>					
May	9	180	May	2	180
June	6	300		7	300

Illustration No. 26

Exercise No. 14

151. In this exercise you are to keep the following accounts: Cash, Merchandise, Expense, Bills Payable, Bills Receivable, Interest and Discount, J. B. Reed, W. H. Small & Co., Investment account. The articles handled represent the Seed and Grain business. Your attention should be directed particularly to the transactions involving *compound entries*.

Seed and Grain Transactions

- Jan. 2 Begin business with cash on hand, \$800, and the following stock: 350 bu. wheat, 90 bu. clover seed, 250 bu. oats, 400 bu. corn, the total value being \$825.

Note: For proper entries for the above, see Section 137, Rule "a," for crediting Investment account; Section 104, Rule "a," for debiting Cash account; and Section 106, Rule "a," for debiting Merchandise account.

- Jan. 2 Pay cash for rent of storeroom, 1 mo., \$20.
 Jan. 2 Buy from J. B. Reed, on account, 127 bu. wheat at 75c.
 Jan. 6 Buy from A. P. Taylor, 800 bu. wheat at 80c for your 30-day note at 6 per cent.
 Jan. 9 Sell to W. H. Small & Co., on account, 300 bu. corn at 60c.
 Jan. 11 Sell to Jas. Harter for his 30-day note at 6 per cent, 60 bu. clover seed at \$4.
 Jan. 12 Pay J. B. Reed cash, \$94, for wheat bought on Jan. 2, a discount of \$1.25 being allowed.

Note: J. B. Reed's account, being in balance, should be closed. There being but one item on either side, only the two-line ruling is required. It is not necessary to write the footings.

- Jan. 20 Sell to Igleheart Bros. for their 30-day note at 6 per cent, 800 bu. wheat at 95c.
 Jan. 21 W. H. Small & Co. pay cash, \$178, in full of account, a discount of \$2 being allowed. (Close the account.)
 Jan. 25 Buy from Jas. Barnes 160 bu. clover seed at \$3 for your 30-day note at 6 per cent.
 Jan. 30 Pay drayage bills for mo., \$12.40.
 Feb. 1 Buy from J. B. Reed, on account, 600 bu. corn at 45c.
 Feb. 1 Pay cash for rent of storeroom, 1 mo., \$20.
 Feb. 6 Pay cash for your note in favor of A. P. Taylor with interest.
 Feb. 10 Sell to W. H. Small & Co., on account, 200 bu. oats at 35c.
 Feb. 11 Jas. Harter pays cash for his note with accrued interest.
 Feb. 19 Sell to E. L. Emerson for his 30-day note at 6 per cent, 100 bu. clover seed at \$4.
 Feb. 20 Igleheart Bros. pay cash for their note with accrued interest.
 Feb. 24 Pay to J. B. Reed \$265 in full of account, a discount of \$5 being allowed. (Close the account.)
 Feb. 24 Buy from John Martin 400 bu. wheat at 80c for your 30-day note at 5 per cent.
 Feb. 25 Pay your note in favor of Jas. Barnes with accrued interest.
 Feb. 29 Buy from J. B. Reed, on account, 100 bu. oats at 30c.
 Feb. 29 Pay drayage for month \$9.80.
 Mar. 1 Sell to E. J. Lawrence, for his 30-day note at 6 per cent, 500 bu. wheat at 90c.
 Mar. 2 Buy from W. J. Carter 300 bu. wheat at 70c, for your 30-day note at 6 per cent.
 Mar. 2 Pay cash for rent of storeroom, 1 mo., \$20.
 Mar. 4 W. H. Small & Co. pay cash, \$68, in full of account, a discount of \$2 being allowed. (Close the account.)

Mar. 12 Sell W. H. Small & Co., on account, 400 bu. wheat at 92c.

Mar. 19 E. L. Emerson pays cash for his note with accrued interest.

152. Carry out the following instructions:

- (a) Take a trial balance as previously instructed.
 - (b) Inventory the stock on hand at the following values: wheat 80c per bu., oats 30c per bu., corn 50c per bu., clover seed \$3.00 per bu.
 - (c) Make a statement as previously instructed.
- Hand the work to your teacher.

153. Answer the following questions in writing and hand to your teacher:

- (a) When you pay a note with interest why should Bills Payable be debited for the face instead of for the amount of the note?
- (b) When a Bills Receivable, with interest, is paid, why should the account be credited for its face instead of for the amount?
- (c) What is a Compound entry?
- (d) On May 1st you buy a bill of mdse. from A. J. Black amounting to \$85, due in 30 days. On May 5 he accepts \$80 in settlement of the account. Illustrate the account and explain why A. J. Black should be debited with \$85 instead of the amount paid him.
- (e) Explain why the "balance" is not disturbed by such an entry as is required by the transaction under "d."

Tenth Lesson

Closing the Ledger

154. In this lesson, the method of closing the ledger will be explained and illustrated.

Exercise No. 15

155. In this exercise, the following accounts are to be kept: Cash, Merchandise, Expense, Bills Payable, Bills Receivable, Interest and Discount, The Mackey-Nesbit Company, Parsons and Scoville Company, J. B. Reed, C. F. Packard, Proprietor's investment account.

156. In making the entries in the various ledger accounts, remember that for every amount debited, a corresponding amount is credited in some other account or accounts. If in doubt, as to the proper disposition of any item, refer to the rules of debit and credit given in previous lessons.

Transactions for the Exercise in Closing the Ledger

- July 1 You are to begin business with a stock of general merchandise valued at \$1,800, and cash \$1,200.
- July 1 Pay cash for store rent in advance, 1 mo., \$20.
- July 1 Buy invoice of groceries, on account 30 days, from the Parsons & Scoville Co., \$360.70.
- July 2 Buy from the Mackey-Nisbet Co., on account 30 days, invoice of dry goods and notions, \$476.30.
- July 5 Cash sales for this day, \$12.75.
- July 5 Buy from the Simmons Hardware Co., for your note, invoice of hardware amounting to \$127.40.
- July 5 Sell to J. B. Reed, on account, groceries amounting to \$18.45.
- July 6 Sell to Jas. Farley, for his note, dry goods and groceries amounting to \$56.30.
- July 6 Cash sales for this day, \$9.70.
- July 7 Pay cash, \$470, for the bill of goods bought from the Mackey-Nisbet Co., on July 2, they allowing you a discount of \$6.30.
- July 7 Buy for cash 3 tons coal at \$2.80 for use in the business.
- July 8 Buy for your note an invoice of dry goods from Marshall Field & Co., amounting to \$190.
- July 8 Sell to C. F. Packard, on account, dry goods and groceries amounting to \$38.40.

- July 8 Pay the Parsons & Scoville Co., cash on account, \$100.
July 9 Buy from the Mackey-Nisbet Co., on account 30 days, an invoice of goods amounting to \$75.80.
July 9 Receive from J. B. Reed, cash to apply on account, \$10.
July 9 Cash sales for the day \$11.80.
July 11 Buy from the Parsons & Scoville Co., on account 30 days, an invoice of groceries amounting to \$87.40.
July 12 Pay the Parsons & Scoville Co., cash to apply on account, \$260.70.
July 12 Sell to C. A. Roberts, for his note, dry goods amounting to \$27.
July 12 Cash sales for this day, \$25.40.
July 12 Sell to J. B. Reed, on account, dry goods and groceries amounting to \$27.40.
July 13 C. F. Packard pays cash to apply on account, \$20.
July 14 Sell to C. F. Packard, on account, dry goods and groceries amounting to \$36.90.
July 14 Pay your note of July 5 for \$127.40, in favor of the Simmons Hardware Co., with interest 90c.
July 15 Buy from the Parsons & Scoville Co., on account 30 days, an invoice of groceries amounting to \$39.30.
July 15 Cash sales for the day, \$40.75.
July 16 Cash sales for the day, \$28.75.
July 18 Sell to A. L. Jones, for his note, dry goods and groceries amounting to \$38.60.
July 19 Pay cash, \$85, for invoice of groceries bought from the Parsons & Scoville Co., on July 11, a discount of \$2.40 being allowed.
July 19 Sell for cash, merchandise amounting to \$38.45.
July 20 Jas. Farley pays his note of \$56.30, dated July 6, interest \$1.20.
July 20 Pay cash, \$7.80, for books and stationery for office use.
July 20 Sell to J. B. Reed, on account, dry goods and merchandise amounting to \$37.80.
July 21 Sell for cash merchandise amounting to \$17.80.
July 22 C. F. Packard pays cash in full of account, you allowing a discount of \$1.50.
Rule the account. Balance and rule your Cash account.
July 23 Sell to C. F. Packard, on account, merchandise amounting to \$28.45.
July 25 Buy for your note an invoice of hardware from the Clifford Hardware Co. to the amount of \$70.
July 25 Pay cash for your note of \$190 in favor of Marshall Field & Co., with \$1.80 interest.
July 25 Buy from the Mackey-Nisbet Co., on account 30 days, an invoice of goods amounting to \$74.20.
July 26 Pay cash, \$74, for the invoice of goods bought from the Mackey-Nisbet Co., on July 9, a discount of \$1.80 being allowed.
July 26 C. A. Roberts pays cash, \$26, for his note, a discount of \$1 being allowed.

157. Carry out the following instructions:

- (a) Take a trial balance.
- (b) Assuming that the inventory shows \$3,200 worth of merchandise on hand, determine your resources.
- (c) Determine your liabilities.
- (d) From these facts determine your present worth.

- (c) Determine your total gain.
- (f) Determine your loss.
- (g) Determine your net gain.
- (h) From these facts determine your present worth.
- (i) Make a statement using the form shown in the Seventh Lesson, Section 101.
- (j) Hand the accounts, the trial balance, and the statement to your teacher.

Classification of Accounts

158. You have, no doubt, observed that an account shows either a resource, a liability, a loss or a gain. On this basis, accounts are divided into two general classes, namely:

- (a) Real accounts, those showing resources or liabilities.
- (b) Speculative accounts, those showing losses or gains.

Examples of the first class are: Cash, Bills Receivable, Bills Payable, and Personal accounts. The second class are illustrated by Expense, Interest and Discount, and Merchandise accounts.

Closing the Ledger

159. You have also observed that the following steps are taken in determining the proprietor's present worth:

- (a) The total gain is determined.
- (b) The total loss is determined.
- (c) The net gain or net loss is determined.
- (d) The net gain or net loss is added to, or deducted from, the former present worth.

160. The steps outlined in the preceding section show precisely what is done in closing the ledger (a very simple matter), but the utmost caution must be used, else the mechanical part of it will be confusing.

161. With your statement before you, proceed to close your ledger in accordance with the following instructions.

162. Close the Expense account as shown in Illustration No. 27. Observe that the loss is written in red ink, which signifies that it is to be transferred to another account.

163. Next, open an account under the title of "Loss and Gain," and transfer the loss shown by the Expense account to the debit side, as shown in Illustration No. 30.

164. Observe that when the \$36.20 is written on the credit side of Expense account, your ledger is out of balance, as this amount now has no corresponding debit. By transferring the amount \$36.20 to the debit side of the "Loss and Gain" account, the balance of the ledger is restored.

165. To indicate the page to which or from which an item is transferred, place the page number in the folio column. For instance, if Expense account is found on page "20" of the ledger, and the "Loss and Gain" account on page "30," you would write the number "30" in the folio column of Expense account, and in the folio column of the "Loss and Gain" account, you would write the number "20."

166. Close the Interest and Discount account as shown in Illustration No. 28.

167. Transfer the gain from the Interest and Discount account to the credit side of the "Loss and Gain" account, as shown in Illustration No. 30.

168. Close the Merchandise account as follows:

- (a) Write the inventory on the credit side in red ink, as shown in Illustration No. 29.
- (b) Write the gain on the debit side in red ink as shown in Illustration No. 29.
- (c) Rule the account, and bring the inventory below the ruling on the debit side, as shown in Illustration No. 29.
- (d) Transfer the gain to the credit side of the "Loss and Gain" account, as shown in Illustration No. 30.

You will now observe that all the Speculative accounts, that is, those showing losses and gains have been closed, the gains having been carried to the credit side and the losses to the debit side of the "Loss and Gain" account.

169. The *net result* of the business, shown on the statement, and now also by the "Loss and Gain" account in the ledger, must finally appear in the Proprietor's account. The "Loss and Gain" account furnishes a convenient means for showing the net gain or net loss in a single amount, preparatory to transferring to the Proprietor's stock account.

170. You will now close the "Loss and Gain" account by writing the difference between the two sides, the net gain, in red ink on the debit side, as shown in Illustration No. 30.

171. Transfer the net gain to your Investment account, and balance it, as shown in Illustration No. 31.

With your statement before you, trace the steps taken in closing the ledger until you thoroughly understand the manner of doing it.

Expense

July	1		20						
	7		840						
	20		1780						
			3620					3620	

Illustration No. 27

<i>Interest & Discount</i>									
July	14		90	July	7			630	
	22		150		19			240	
	25		150		20			120	
	26		520		26			1180	
			1170					1170	

Illustration No. 28

Merchandise

July	1		1800	July	5		1275
	1		36070		5		1845
	2		47630		6		5630
	5		12740		6		970
	8		190		8		3840
	9		7580		9		1180
	11		8740		12		27
	15		3930		12		2540
	25		70		12		2740
	25		7420		14		3690
			330110		15		4075
					16		2875
					18		3860
					19		3845
					20		3780
					21		1780
					23		2845
							49470
			369470				369470
			3200				
July	27	Inventory					

Illustration No. 29

July 26 Expense	Loss & Gain	July 20 Int & Disc	6 50
	36 20	Merch	393 60
	400 10		400 10

Illustration No. 30

(Student's Name) Prop	July 1	1800
	1	1200
26 Net Gain	363 90	
3363 90	July 27 Pres Worth	3363 90
		3363 90

Illustration No. 31

The Second Trial Balance

172. After the books have been closed, it is advisable to take a *second trial balance* to prove that you have not omitted to bring down inventories or made any other errors in closing, which would put the ledger "off balance."

173. The *second trial balance* is a list of all the accounts in the ledger after it has been closed. It will be observed that aside from the Proprietor's stock account, the remainder of the accounts now found in the ledger represent either a resource or a liability. All the speculative accounts were disposed of in the process of closing the ledger.

174. Hand your work to the teacher for examination. Answer the following questions in writing and hand to your teacher:

- State how the gain on merchandise is determined when there is an inventory.
- Speculative accounts are kept for what purpose?
- What is the purpose of the Loss and Gain account?
- State, in logical order, the steps that are taken in closing the ledger.
- Which is the last account to be closed?
- State the two ways of finding your present worth.
- If your liabilities exceed your resources, what is the difference called?
- On which side of the Loss and Gain account do your losses appear after the ledger is closed? On which side are the gains?

Eleventh Lesson

The Journal

175. Up to this point the work has dealt with the individual accounts, it having been the primary purpose to develop the manner of keeping accounts and the purpose for which each is kept. In connection with this the Trial Balance and Statement have been developed, and through the whole has been revealed the purpose for which a set of books is kept. You must ever keep in mind that *each account has a purpose peculiar to itself*, setting out a fact necessary for the proprietor to know; and that from all the accounts are deduced certain other facts equally necessary to be known, *they being set out in the Statement*.

176. From all that has gone before it is clear that the purpose of a set of books is to furnish to the proprietor the facts from which he can, at any time, ascertain the true condition of the business. The resources of the business and what they consist of, the liabilities, the cost of conducting the business, the sources of profit, and the amount of money on hand, are all shown by a set of double entry books.

177. It is possible in any business to show the facts referred to above, by keeping detached accounts as you have done in the preceding lessons. However, books of original entry, known as the Journal, Cash Book, Sales Book, etc., are used in which to record a detailed history of each transaction, and from these books the amounts are transferred to the proper accounts in the ledger.

178. In this lesson, the manner of making entries in the Journal will be fully illustrated. Observe that the third column at the left of the page is the folio column. The wide space contains the names of the accounts to be debited and credited and also a brief, but complete, explanation or history of the transaction. The money columns are side by side. The one on the left is the debit and the one on the right, the credit column.

179. The original entry or first record of a transaction must be made with care as it is the one by which the transaction is proved. Erasures are not permitted, as this would vitiate the record and make it inadmissible as evidence in court. To rectify errors in writing figures in books of original entry, draw a single red line through the incorrect amount and write the correct figures above. If the whole entry is wrong, mark it "void" in red ink and re-write.

180. A careful study of the following transactions and the illustrations of the model entries will enable you to thoroughly understand the use of the Journal.

Transactions Illustrating the Use of the Journal

Feb. 1 A. C. Simmons, commenced the retail furniture business on this date, investing cash, \$4,000.

Feb. 2 Bought from Alexander H. Revell & Co., on account 60 days, invoice, dated Feb. 1, amounting to \$1,496.70.

180a. An invoice is an itemized list of the articles bought, showing prices, discounts and terms of purchase.

February 1, 19—

<i>A. C. Simmons began the Dry Goods business this day with a cash investment of \$4000</i>			
Cash	✓	4000	
<i>A. C. Simmons</i>	✓		4000
<i>For amount of Investment</i>			
2			
Mdse	✓	149670	
<i>Alex. Revell & Co.</i>	✓		149670
<i>Bot on acct 60 ds. per Inv. Feb. 1</i>			
<i>J. B. Corwin</i>	✓	4750	
Mdse	✓		4750
<i>Sold on acct 30 ds. 1 Oak Dresser</i>			
3			
Cash	✓	10250	
Mdse	✓		10250
2 China Closets @ \$21.25	42.50		
12 Oak Chairs @ 1.25	15.00		
1 Colonial Dining Table @ 45.00			
4			
Mdse	✓	640	
Bills Pay	✓		640
<i>Bot for 30 da. note at 6% Inv. Feb. 3</i>			
<i>From the Tobey Furniture Co.</i>			

Illustration No. 32

- Feb. 2 Sold to J. B. Corwin, on account 30 days, one Oak Dresser, \$47.50.
 Feb. 3 Sold to Samuel Lee for cash, 2 China Closets at \$21.25; 12 Oak Chairs at \$1.25;
 1 Colonial Dining Table at \$45.
 Feb. 4 Bought from the Tobey Furniture Co., Chicago, invoice dated Feb. 3, amounting to
 \$640, and gave in payment a thirty-day note with interest at 6 per cent.
 Feb. 4 Sold to Otis L. Matthews the following bill of goods and received in payment,
 cash, \$100, and his note at one month with interest at 6 per cent for the balance:
 3 Chiffoniers at \$22; 3 Oak Dressers at \$45; 18 Oak Chairs at \$1.25.
 Feb. 8 J. B. Corwin paid cash for goods bought on the 2d, but not due until March 4.
 He is allowed a discount of \$1.50.
 Mar. 4 Received cash from Otis L. Matthews for his note due to-day, also interest, 62c.
 Mar. 6 Paid Tobey Furniture Co. cash for note given on Feb. 4, together with interest, \$3.20.

February 4, 19-

Cash	100		
Bills Rec.	123 50		
<i>Mdse.</i>			223 50
Sold Otis L. Matthews for Cash 100 00			
and bal. by 1 mo note at 6%			
3 Chiffoniers @ \$22	66		
3 Oak Dressers @ 45	135		
18 " Chairs @ 1.25	22 50		
8			
Cash	46		
Interest & Discount	1 50		
<i>J. B. Corwin</i>			47 50
Rec'd cash for bill of 2d inst less \$1.50			
<i>March 4-19-</i>			
Cash	124 12		
Bills Rec.			123 50
Int & Disch.			62
Otis L. Matthews paid note due today and 1 mos int			
6			
Bills Pay	640		
Interest & Disch.	3 20		
Cash			643 20
Pd note favor Tobey Furn. Co. with int for 1 mo			

Illustration No. 32 (Continued)

181. In making entries in the Journal, the same process of reasoning is employed as in the case of detached accounts. You have learned when to debit and when to credit the various accounts. The same rules are applied in making the journal entries. The name of the account to be debited is written first with the amount in the debit column on the same line. The name of the account to be credited is written on the line below the debit item, but a little to the right, and the amount is entered in the credit column on the same line. The explanation of the transaction is written below, using the whole space for this purpose. Always write the name of the month and the date at the top of each page. In the middle of the page write only the date, except where the month changes. When several transactions occur on the same day, write the date above the first only and leave a blank line between each transaction.

Posting

182. *Posting* is the process of transferring the amounts from the original book of entry to their respective accounts in the ledger. In business, posting should be done daily.

183. As a means of avoiding errors it is advisable to post all debit items first, and in the order in which they appear in the Journal; next post all credit items, and in the order in which they appear in the Journal.

184. The following details, if carefully studied, will make clear the manner of posting. A Cash account being opened in the ledger, these steps were taken in posting the first debit item:

- (a) The item, \$4,000 was transferred to the debit side of the account.
- (b) The date of the journal entry was transferred to the ledger.
- (c) The journal page was transferred to the folio column in the ledger.
- (d) The ledger page was transferred to the folio column in the Journal.

Note: In posting, be sure to follow the above directions in the order in which they are stated.

185. The illustrations on the next page show the result of Posting the journal entries to their proper accounts in the ledger. Examine them carefully to make certain that you understand the four steps necessary in posting an item.

Checking the Posting

186. The careful bookkeeper checks his posting to guard against possible errors. While it will require a little extra work to do this, it is better than worrying many extra hours at the end of the month in trying to find mistakes in

your trial balance that could have been avoided by a careful system of checking. The following directions will show the manner of checking your posting properly and systematically.

187. Beginning with the first debit item in the Journal, see if it is properly written and in its proper place in the ledger; if you find it so, check it by placing the following mark (✓) near the two-line ruling just to the left of the item in the ledger, and also near the two-line ruling just to the left of the item in the Journal. All debit items must be checked first and then the credit items. The first page of journal entries are checked in the model Journal and in the proper ledger accounts. Examine them in both the Journal and the ledger.

Exercise No. 16

188. You are to engage in the Dry Goods Business with a cash investment of \$3,500. Write an opening entry similar to the one in Illustration No. 32 and journalize the transactions given below.

Dry Goods Transactions

- June 1 Amount of cash on hand, \$3,500.
- June 1 Buy 900 yds. Venetian cloth from A. J. Barnes at 80c, and give in payment your 30-day note at 6 per cent.
- June 2 Pay 1 month's rent in advance, \$20.
- June 2 Buy from E. C. Hawley, on account, 30 yds. broadcloth at \$3.25.
- June 5 Buy for cash 1,200 yds. China silk at 40c.
- June 5 Sell to Jas. Barker, for his 30-day note at 6 per cent, 700 yds. Venetian cloth at 90c.
- June 9 Pay cash for hired help, \$12.
- June 9 Buy from E. C. Hawley, on account, 600 yds. storm serge at 35c.
- June 13 Buy 1,200 yds. Venetian cloth from E. J. Lawrence at 85c, and give in payment your 30-day note at 6 per cent.
- June 17 Sell to W. H. Small & Co., on account, 650 yds. Venetian cloth at 90c.
- June 23 Pay cash, \$300, to E. C. Hawley, in full of account, a discount of \$7.50 being allowed.
- June 27 Sell to M. J. Harman, for his 30-day note at 6 per cent, 800 yds. China silk at 55c.
- June 30 Buy from E. C. Hawley, on account, 28 yds. broadcloth at \$3.30.
- July 1 Sell to W. H. Small & Co., on account, 24 yds. broadcloth at \$4.
- July 1 Pay cash for your note in favor of A. J. Barnes, with accrued interest.
- July 2 Pay a month's rent in advance.
- July 5 W. H. Small & Co. settle their account in full, a discount of \$6 being allowed.
- July 5 Jas. Barker pays cash for his note, due this date, with accrued interest.
- July 9 Buy 108 yds. broadcloth from E. J. Hopkins at \$3.40, and give in payment your 30-day note at 6 per cent.
- July 13 Pay cash for your note in favor of E. J. Lawrence, with accrued interest.
- July 15 Pay E. C. Hawley \$25 to apply on account.

- July 18 Sell to Geo. Caxton & Co., for their 30-day note at 6 per cent, 85 yds. broadcloth at \$4.60.
- July 18 Pay freight on above, \$8.
- July 23 Buy from E. J. Andrews, 400 yds. China silk at 48c, and give in payment your 30-day note without interest.
- July 25 Sell to S. W. Little, on account, 200 yds. storm serge at 48c.
- July 27 Pay cash, \$100, on your note in favor of E. J. Andrews.
- July 27 M. J. Harmon pays his note due this date, with accrued interest.
- July 29 Sell to W. H. Small & Co., on account, 350 yds. China silk at 52c.
- Aug. 1 Sell to S. W. Little, on account, 100 yds. China silk at 57c.
- Aug. 1 Buy from E. C. Hawley, on account, 250 yds. China silk at 44c.
- Aug. 3 Receive cash, \$50, from S. W. Little, to apply on account.
- Aug. 4 Buy 800 yds. China silk from Chas. Adams at 47c, and give in payment your 30-day note at 6 per cent.
- Aug. 4 Buy from E. C. Hawley, on account, 10 yds. broadcloth at \$3.90.
- Aug. 8 Pay cash for hired help, \$16.
- Aug. 9 Pay your note in favor of E. J. Hopkins, due this date, with accrued interest.
- Aug. 12 Sell to M. C. Bailey, for his 30-day note at 6 per cent, 700 yds. China silk at 59c.
- Aug. 13 Receive cash, \$40, from W. H. Small & Co., to apply on account.
- Aug. 15 Sell to S. W. Little, on account, 80 yds. storm serge at 42c.
- Aug. 15 Sell to W. H. Small & Co., on account, 350 yds. Venetian cloth at \$1.01.
- Aug. 18 Geo. Caxton & Co., pay cash for their note, due this date, with accrued interest.
- Aug. 20 S. W. Little pays cash, \$40, to apply on account.
- Aug. 23 Pay balance due on your note in favor of E. J. Andrews.

189. Carry out the following instructions:

- (a) Have the journal entries verified by your teacher.
- (b) Post the above, using sheets of ledger paper.
- (c) Verify your posting by checking as directed in Section 187.
- (d) Take a trial balance.
- (e) Inventory the Venetian cloth on hand at 90c per yd., the China silk at 40c per yd., the storm serge at 35c per yd., and the broadcloth at \$3.40 per yd. Have the inventory verified.
- (f) Make a statement. Have it verified.
- (g) Close the ledger, following the steps stated in the Tenth Lesson, Sections 159 to 171.
- (h) Hand the Journal, Ledger, Trial Balance and Statement to your teacher.

190. Answer the following questions in writing and hand to your teacher:

- (a) What is meant by posting?
- (b) What is a book of original entry?
- (c) What advantages are afforded by the use of the Journal?

- (*d*) Explain in detail the method of posting an item from the Journal to the ledger.
- (*e*) What is the object of checking the posting?
- (*f*) Why are erasures in books of original entry not permitted?
- (*g*) How should errors be corrected in writing wrong figures?
- (*h*) How do you correct an error made by writing the wrong amount in the ledger money column?

Twelfth Lesson

The Cash Book

191. A book of original entry is one containing the first record of all the facts concerning business transactions.

192. The *Cash Book*, like the Journal, is a book of original entry. All transactions involving cash are recorded in this book and posted direct to the ledger. While the method of making the entry in this book is new to you, keep in mind that the same rules of debit and credit which you have already learned and applied are still effective. *These rules never change.*

193. You will learn as you proceed with this course of study that there are various kinds of books of original entry. Remember that while the principles of Double Entry bookkeeping are always the same, their application and the form of the books used vary according to the requirements of the business.

194. The simplest form of the Cash Book is illustrated by the transactions given below.

You will see by referring to the transactions and the illustrations that all cash received is placed on the left-hand, that is the debit side, of the Cash Book.

You will also observe that all cash paid out for any purpose is placed on the right-hand, that is the credit side, of the Cash Book.

195. From the foregoing you have probably noted that the Cash Book does not differ much from the Cash account, except in its form. When a Cash Book is used, it takes the place of the Cash account; therefore, it is not necessary to open that account in the ledger.

196. You will make the entries for the following transactions exactly as they appear in the model Cash Book. Take a double sheet of journal paper and number each page at the top. When open, page 2 will be the left-hand side, and page 3 the right-hand side.

Transactions Illustrating the Use of the Cash Book

Jan. 2 L. H. Burke began business on this date investing cash, \$3,000.

197. You have already learned that this transaction requires that cash should be debited and L. H. Burke credited. Cash being received, the entry must be

made on the debit side or "cash received" side of the Cash Book. This is done by writing the name of the account to be credited "L. H. Burke," immediately to the right of the date column, following it with a brief explanation, and the amount, \$3,000, in the first money column. When this amount is posted, it will appear on the credit side of L. H. Burke's account in the ledger.

Jan. 2 Bought a stock of merchandise from A. M. Harris and gave him in payment \$1,500 cash.

198. This entry requires that Merchandise account should be debited and cash credited. Enter it on the credit side of the Cash Book, by writing the name of the account to be debited, "Merchandise," immediately to the right of the date column followed with a brief explanation, and the amount, \$1,500, in the first money column. This amount will be posted to the debit side of the Merchandise account in the ledger.

Cash Receipts

19-							
Jan.	2	L. H. Burke	Invested	3000			
	5	Merch	Sold to A. C. Loring	200			
	8	R. G. Mann	to apply on acct	250			
	12	Merch	Cash sale	130		3580	
						3580	
Jan	16	Balance		1076			
	17	Bills Rec	Leonard B. Harris note	470			
	20	Merch	Sales for the day	230			
	23	Bills Rec.	Alfred Cole's note	150			
	23	Interest	on above	350			
	25	Merch	Cash Sales	19075		292025	
						292025	
Jan	26	Balance		274975			

Illustration No. 34

- Jan. 3 Paid cash for January rent, \$50.00.
 Jan. 5 Sold merchandise to A. C. Loring, for cash \$200.
 Jan. 8 Paid cash for repairs on building, \$25.00.
 Jan. 8 R. G. Mann paid cash, to apply on account, \$250.
 Jan. 10 Paid cash for stamps \$5.00, office stationery \$15.

- Jan. 12 Sold merchandise for cash, \$130.
 Jan. 13 Paid cash for merchandise valued at \$70.00.
 Jan. 15 Paid cash for labor \$9.00.
 Jan. 15 Mr. Burke took cash from drawer, for personal use, \$30.00.

It is now desired to balance the Cash Book in order to show in a single sum the amount of cash on hand. Study carefully the method of doing this as shown in the illustration. After bringing down the balance, proceed with the following transactions:

- Jan. 17 Received cash from Leonard B. Innis, in payment of note due to-day, \$470.00.
 Jan. 28 Paid my note for \$100.00, favor of R. M. Lee, and interest on it amounting to \$8.00.
 Jan. 20 Cash sales of merchandise for the day, \$230.00.
 Jan. 23 Alfred Cole paid his note for \$150, due to-day; also interest amounting to \$3.50.
 Jan. 24 Gave Henry Brown check for \$62.50 in full of account.
 Jan. 25 Received cash for merchandise, \$190.75.

Cash Payments

19-							
Jan	7	Merch	Bill from M. Harris	1500			
	3	Expense	Rent for Jan	50			
	8	Expense	Repairs on Building	25			
	10	Expense	Stamps ^{5.00} Stationery ^{15.60}	20			
	13	Merch	Cash purchase	70			
	15	Expense	Labor	9			
	15	L. A. Burke	for personal use	30		170 4	
						3580	
Jan	18	Bills Pay	favor R. M. Lee	100			
	18	Interest	on above	8			
	24	Henry Brown	full of acct	6250		170 50	
						292425	

Illustration No. 34 (Continued)

199. Deductions made from the foregoing transactions:

- (a) Making the entries on the left-hand side of the Cash Book as shown in Illustration No. 34 has the same effect as a journal entry debiting cash and crediting the person or thing producing the money.

- (b) The entries on the right-hand side equal a journal entry debiting the person to whom or the thing for which the cash was paid, and crediting "Cash."
- (c) The use of the Cash Book saves the time and labor which would otherwise be required in writing the word "Cash" in every transaction if made in the Journal, and it also does away with the work of posting to a Cash account in the ledger.
- (d) The difference between the two sides of the Cash Book will show the amount of cash on hand.

Posting from the Cash Book

200. You are now to post the work of your Cash Book, using sheets of ledger paper for this purpose.

201. First, post the items found on the left-hand side of the Cash Book. Open an account with "L. H. Burke, Proprietor," at the top of the first page of your ledger sheet, numbering the page 1.

202. Observe the following order of procedure in posting:

- (a) Write the amount, \$3,000, in the money column on the credit side of L. H. Burke's account.
- (b) Write the date of the Cash Book transaction in the date column.
- (c) Write the page of the Cash Book in the ledger folio column; also write the letter "C" immediately to the left of the folio column to indicate that this item is posted from the Cash Book.
- (d) Next, write the page of the ledger account in the folio column of the Cash Book, to show that the item has been posted, and also where it may be found in the ledger.

Complete the posting of the items on the debit side of the Cash Book. Then post from the credit side, remembering that each item will be posted to the debit side of the proper ledger account.

203. To prove your posting, take a trial balance of your ledger and arrange it in proper form on a sheet of journal paper. Hand your Cash Book, Ledger accounts, and Trial Balance to your teacher for approval.

Exercise No. 17

204. Record the following transactions in proper Cash Book form.

Jewelry Transactions

- Mar. 1 H. C. Tilton began business with \$1,500, cash.
Mar. 1 Paid rent for March, \$35.
Mar. 2 Bought merchandise for cash, \$1,000.
Mar. 3 Sold for cash 6 sets Individual Salad Forks at \$5.40.

In this and similar transactions, make the entry in the explanation column, as follows: "Mdse. 6 sets I. S. F. at \$5.40."

- Mar. 4 Paid R. C. Brown cash to apply on account, \$150.
Mar. 6 Sold for cash 3 Stag Handle Carving Sets at \$18.90.
Mar. 6 Received \$250 cash from James A. Monroe on account.
Mar. 7 Paid \$5.40 cash to City Express Co. for hauling.
Mar. 8 Samuel Lathrop paid cash for his note in our favor, due to-day, \$375.
Mar. 9 Paid cash for repairs on furniture, \$3.

Balance and rule the Cash Book.

- Mar. 10 Sold one Oak Hall Clock for cash, \$114.75.
Mar. 11 Paid cash for my note due to-day favor of Bernhard & Co., \$450.00, together with interest, \$3.25.
Mar. 14 Bought for cash invoice of goods amounting to \$165.
Mar. 15 Sold for cash $\frac{1}{2}$ gross Gold Filled Fobs, at \$5.90 a doz.
Mar. 16 Paid freight on goods bought on the 16th, \$9.83.
Mar. 17 Arthur Lee paid \$5.70 cash for interest due to-day on a note we hold against him.
Mar. 20 Sold for cash 2 Gold Filled Watches, at \$40.70.
Mar. 24 Paid wages to clerks, \$70.
Mar. 26 Sold for cash 3 sets Bouillon Spoons, at \$6.

205. Directions for proceeding with the work:

- (a) Have the entries verified by the teacher.
- (b) Balance the Cash Book.
- (c) Post to the proper ledger accounts.
- (d) Take a trial balance.
- (e) Hand your work to the teacher for inspection.

206. Answer the following questions in writing and hand to your teacher:

- (a) For what purpose is the Cash Book kept?
- (b) How is the balance of cash on hand determined?
- (c) Explain in what way the use of the Cash Book reduces the work of the bookkeeper.
- (d) Explain how the books are kept in balance when the debit and credit items in the Cash Book are posted to opposite sides in the ledger from those on which they appear in the Cash Book.

Thirteenth Lesson

The Sales and the Purchase Books

207. The *Sales Book* contains a record of all sales of merchandise which are billed to the customer, whether paid for at the time, or sold on credit. It is a book of original entry and the items are posted from it direct to the ledger.

208. The idea illustrated by the Sales Book, as explained in this lesson, finds expression in many different ways. If you thoroughly understand the work of this lesson, you will have no difficulty in applying any one of the different applications of the Sales Book idea.

209. Study carefully the following transactions and the manner of entering them in the Sales Book.

Transactions Illustrating the Use of the Sales Book

- July 5 Sold to O. H. Harlan, Pontiac, Ill., on account 30 days, 10 bbls. XX Salt at 95c.
- July 6 Sold to Arthur Bennett, 619 Main street, Beloit, Wis., on account 60 days, 2 per cent 10 days, 3 bags Rio Coffee, 135 lbs. each, at 15c.
- July 8 Sold to the Ames Mercantile Co., Ames, Iowa, terms 90 days net, 1 per cent 30 days, 3 per cent 10 days: 20 bbls. Patent Flour at \$4.10; 3 bbls. Pearl Hominy, 660 lbs., at 2c; 2 sacks White German Sago, 250 lbs., at $4\frac{1}{2}$ c; 10 cases Malta Vita at \$2.75.
- They are allowed a special discount of 5 per cent from regular list price.
- July 10 Sold to Wellington Bros., Aurora, Ill., and received in payment their 60-day note with interest at 6 per cent: 3 bbls. Corn Syrup, 150 gals. at 21c; 7 cases Educator Wafers, 1 lb. tins, at \$2.90; 10 cases Quaker Oats at \$1.65.

July 5, 19 -

O. H. Harlan, Pontiac, Ill.				
On acct 30 days				
10 bbls x x Salt	@ 75¢			7 50
	6			
Arthur Bennett, 619 Main St				
Beloit, Wis. 60 ds net, 2% 10 ds.				
3 bags Rio Coffee 405#	@ 15¢			60 75
	8			
Ames Mercantile Co., Ames, Iowa				
Terms 90 ds net 1% 30 ds, 3% 10 ds.				
20 bbls Patent Flour	@ \$4.10	82		
3 " Pearl Hominy 660#	@ .02	13 20		
2 sks White Term Sugar 250#	@ 04½	11 25		
10 Cases Malta Vita	@ 2.75	27 50		
		133 95		
		6 70		127 25
	Less 5%			
	10			
Wellington Bros Aurora, Ill.				
Recd. in payt 60 day note, 6% Int.				
3 bbls Corn Syrup, 150 gals	.21	31 50		
7 Cases Educator Wafers 17 Tins	2.90	20 30		
10 " Quaker Oats	@ 1.65	16 50		68 30
Mdse.				
	Cr.			265 80

Illustration No. 35

Posting From the Sales Book

210. Each person is debited in the ledger for the amount sold to him. At the end of the month, or whenever desired, the total of the merchandise sales is posted to the credit side of the Merchandise account in the ledger. The amounts entered in the right-hand column of the Sales Book are footed at the bottom of each page and carried forward to the top of the following page.

211. The sales column is footed and ruled as shown in Illustration No. 35, at the time when the total sales are posted to the Merchandise account.

212. Posting from the Sales Book is indicated by writing the letter "S" immediately to the left of the folio column in the ledger. In all future exercises

in which more than one book of original entry is used, you will indicate the book from which the posting is done by writing the initial of the name of the book as explained in this paragraph.

It is apparent that the Sales Book saves much labor, not only in making the original entries, but especially in the work of posting to the Merchandise account.

213. In the sale to Wellington Bros., you will observe that they are debited, although they paid by giving their note. In a complete set of books, they would be given credit through the Journal. The journal entry would be a debit to Bills Receivable, and a credit to Wellington Bros.

The entry of July 10, could have been made in the Sales Book by debiting Bills Receivable account in place of Wellington Bros., but that entry would not show on the ledger that Wellington Bros. had purchased anything. The method illustrated here is preferable as it gives the proprietor a complete record of all transactions with each customer.

The Purchase Book

214. The *Purchase Book* is a book of original entry, containing a record of all merchandise bought on account.

215. Each entry in the Purchase Book should show the name and the address of the person from whom the goods were bought, the date, terms, and the amount of the purchase. The items bought are not recorded as they are shown on the invoice, which is filed for reference.

Just as in the case of the Sales Book, there are many different ways in which the Purchase Book idea may be applied.

216. Each person from whom goods are bought is credited in his account in the ledger for the amount of the invoice, and at the end of the month, or whenever desired, the Merchandise account is debited for the total purchases.

217. Study carefully the following transactions and the method of making the entries in the Purchase Book.

Transactions Illustrating the Use of the Purchase Book

- April 10 Bought from Hibbard, Spencer, Bartlett & Co., Chicago, invoice of hardware dated April 4, amounting to \$376.90. Terms: 60 days, net; 2 per cent, 30 days; 3 per cent, 10 days.
- April 11 Received invoice of cutlery from the McVoy-Wessling Hardware Co., Chicago, dated April 3, \$225. Terms: 30 days, net; 2 per cent, 10 days.
- April 15 Bought from the Simmons Hardware Co., St. Louis, Mo., invoice, dated April 9, \$267.80. Terms: \$100 cash, balance by 30-day note at 6 per cent.
- April 20 Bought invoice dated April 15, amounting to \$348.50, from George W. Trout Co., St. Paul, Minn. Terms: 60 days, net; 2 per cent, 10 days.

April 19-

<i>Apr</i>	<i>10</i>	<i>Hillbard, Spencer, Bartlett & Co Chicago</i>	<i>376 90</i>		
		<i>Inv Apr 11, 60 ds 2 1/2% 3/10</i>			
	<i>11</i>	<i>W. C. Vogt-Messling Bldg Co, Chicago</i>	<i>2 25</i>		
		<i>Inv Apr 3, 30 ds, net; 2% 10 ds</i>			
	<i>15</i>	<i>Simmons Hardware Co., St. Louis, Mo</i>	<i>267 50</i>		
		<i>Inv Apr 9, 100⁰⁰ Cash Bal 30 ds note 6%</i>			
	<i>20</i>	<i>Geo H. Trout Co., St. Paul, Minn</i>	<i>348 50</i>		
		<i>Inv Apr 15, 60 ds, 2% 10 ds</i>			
		<i>Balance Dr.</i>		<i>1215 20</i>	

Illustration No. 36

Exercise No. 18

218. This exercise is a brief test of your knowledge of the proper use of the Journal, Cash Book, Sales Book, and Purchase Book. The work will be posted to the ledger, after which a trial balance will be taken, the statement made out, and the ledger closed, giving you a further opportunity to demonstrate your knowledge of the previous lessons.

219. The articles bought and sold illustrate the Carpet and Furniture business. Exercise care in making the computations. Check your figures before entering them in the books.

Take four sheets of journal paper and indicate the purpose for which they are to be used, by writing at the top of each sheet, Journal, Cash Book, Sales Book, and Purchase Book, respectively. If in doubt as to how to proceed, consult your teacher.

Carpet and Furniture Transactions

- May 2 Henry Brown and Alfred Munson engaged in the Carpet and Furniture business, each investing \$2,000 cash.
- May 3 Bought from the Carpen Furniture Co., Chicago, invoice dated May 2, \$510. Terms: 30 days; 2 per cent, 10 days.
- May 3 Paid store rent for one month, \$75.
- May 4 Bought from the Richardson Carpet Co., Chicago, invoice dated May 3, \$393, on account, 30 days.
- May 4 Sold to William Watson, 1047 N. Dearborn Ave., on account, 1 Oak Dresser, \$47.

- May 4 Sold to Neil Jenkins, Harvey, Ill., on account: 12 Oak Chairs at \$1.50; 1 Oak Dresser, \$47; 2 Chiffoniers at \$25.
- May 5 Paid cash, \$125, for desks and fixtures for office use.

219a. Debit this amount to an account called, "Furniture and Fixtures." This account shows the cost of all furniture and appliances bought for use in the office or the store. At the time of closing the books, the property charged to this account should be inventoried at less than the original cost to allow for depreciation on account of wear.

- May 5 Sold to James Harvey, Evanston, Ill., on account: 30 yds. Brussels Stair Carpet at 65c; 50 yds. Domestic Ingrain Carpet at \$1.20; 40 yds. Oil Cloth at 85c.
- May 5 Sold to Mrs. Charles Farnsworth, Oak Park, Ill., and received cash \$100, balance on account, 30 days: 20 yds. Cork Linoleum at \$1.10; 40 yds. Wilton Carpet at \$2.40; 2 Oak Dressers at \$47.

Note: In the Sales Book, debit Mrs. Charles Farnsworth for the whole amount. In the Cash Book, credit her on the debit side for the \$100 paid in cash.

- May 7 Sold Adam Volker, 1962 Lake Ave., on account: 3 Dining Tables at \$40; 2 Oak Dressers at \$47; 24 Oak Chairs at \$1.50; 45 yds. Brussels Stair Carpet at 65c. Received in payment note at 15 days with interest at 6 per cent.
- May 9 Paid cash for stamps and stationery, \$12.
- May 9 Bought from Alexander H. Revell & Co., Chicago, Ill., invoice dated May 8, \$285, and gave in payment 30-day note with interest at 6 per cent.
- May 9 Henry Brown took \$30 cash from drawer for his personal use.
- May 10 William Watson paid cash for bill of the 4th, \$47.
- May 10 Sold William Watson, on account: 100 yds. Oil Cloth at 50c; 25 yds. Wilton Carpet at \$2.40; 3 Oak Dressers at \$47; 2 China Closets at \$30; 2 Tables at \$40. As Mr. Watson will be a liberal buyer he is allowed a special trade discount of 10 per cent on the regular price.

219b. For method of entering this transaction in the Sales Book, see sale to Ames Mercantile Co., in Illustration No. 35.

Trade discount is a deduction made from the list price. As it is deducted at the time of the sale, it does not appear in any account in the ledger.

- May 13 Miscellaneous cash sales to date, \$310.50.
- May 13 Paid Carpen Furniture Co. cash for invoice of the 3d inst., less 2 per cent discount.

219c. Enter the above as follows: On the credit side of the Cash Book debit Carpen Furniture Co. for the whole amount, \$510. On the debit side of the Cash Book, credit discount for \$10.20, which is the 2% allowed for payment in 10 days. The difference between these two entries is the exact amount of cash paid to Carpen Furniture Co. If the entry is not clear to you, ask your teacher for further explanation.

- May 16 Paid freight on goods bought from Alexander H. Revell & Co., on the 9th inst., \$23.75.
- May 20 Buy from Carpen Furniture Co., on account, invoice dated May 18, \$343.50.

- May 20 Sold to Adam Volker and received \$230 cash to apply on the sale, balance on account: 4 Chiffoniers at \$25; 3 China Closets at \$30; 75 yds. Cork Linoleum at \$1.10; 75 yds. Domestic Ingrain Carpet at \$1.20.
- May 23 Adam Volker paid his note due to-day with interest. The interest for 15 days is 70c.
- May 25 Alfred Munson takes from stock for personal use, 1 Oak Dresser at \$27.
- Note: He is charged at cost price. Make the entry in the Sales Book.
- May 31 James Harvey pays cash to apply on account, \$75.
- May 31 Paid salaries to date, \$230.

Before going on with the work have all the entries verified by the teacher.

220. Directions for proceeding:

(a) Post from the books in the following order:

- (1) Purchase Book.
- (2) Sales Book.
- (3) Cash Book.
- (4) Journal.

(b) Check the posting carefully. Remember to use a check mark (✓), otherwise the checking is valueless.

(c) Take a Trial Balance.

(d) Take Inventories.

(1) Merchandise on hand is as follows, and is valued at cost.

- 20 yds. Brussels Stair Carpet, at 45c.
- 75 yds. Domestic Ingrain Carpet, at 75c.
- 35 yds. Wilton Carpet, at \$1.05.
- 10 yds. Oil Cloth, at 50c.
- 5 yds. Cork Linoleum, at 75c.
- 28 Chairs, at 85c.
- 3 Dressers, at \$30.
- 7 Chiffoniers, at \$12.50.
- 2 China Closets, at \$15.
- 2 Tables, at \$27.

(2) Furniture and Fixtures. Deduct 10 per cent from original cost.

(e) Make out a statement showing the condition of the business.
(See Seventh Lesson, Section 101.)

(f) Close the ledger.

(g) Take a second trial balance. (See Section 173.)

(h) Hand all your work to the teacher for examination.

221. Prepare written answers to the following and hand to your teacher:

- (a) What is a Sales Book?
- (b) What is a Purchase Book?

- (c) What advantages are there in the use of these books?
- (d) Why do you not enter the items in the Purchase Book?
- (e) Explain the method of posting from the Sales Book?
- (f) What items are charged to the Furniture and Fixtures account?
- (g) Explain how to enter the following transaction in the Cash Book: James Brown owes us \$600.00. He is allowed a discount of \$20.00, and pays \$580.00 cash to settle in full.
- (h) What is the reason that no entry is made for a discount deducted from the list price of goods at the time of sale?

Fourteenth Lesson

The Cash Journal

222. The *Cash Journal* is a book of original entry and, as the name implies, is a combination of the Journal and the Cash Book. The form given on the next pages has a column for Miscellaneous items and columns for Cash, Merchandise, Accounts Receivable and Accounts Payable.

223. Read all the transactions and observe carefully the entry for each.

Transactions Illustrating the Use of the Cash Journal

May 1 Evans Bros. commenced the Grain, Feed & Fuel business May 1, with a cash capital of \$3,000.00.

Observe that cash is debited with \$3,000.00 and Evans Bros. are credited in the Miscellaneous column. Their name is written over against the date column followed by a brief explanation. This item will later be posted to the credit of their account in the ledger.

May 2 Bought from R. G. Davis for cash, 600 bu Wheat at 80c.

May 3 Paid cash for rent, \$30.00.

May 4 Bought from A. W. Allen, on account, 400 bu. Oats at 40c.

Observe that Merchandise is debited with \$160.00 and A. W. Allen is credited in the Accounts Payable column with the same amount. His name is written over against the date column followed by a short explanation and the \$160.00 will later be posted to the credit of his account.

May 4 Bought from J. G. Evans, on account, 500 bu. Corn at 50c.

May 5 Sold Frank Case, on account, 100 bu. Corn at 60c.

Observe that Merchandise is credited with \$60.00 and Frank Case is charged with the same amount in the Accounts Receivable column. His name is written over against the date column followed by an explanation and later the \$60.00 will be posted to the debit side of his account.

May 6 Sold Geo. Horn for his 30-day note, 200 bu. Wheat at 90c.

Observe that Bills Receivable is debited with \$180.00 in the Miscellaneous column and Merchandise is credited with the same amount. This item will later be posted to the debit side of Bills Receivable in the ledger.

- May 6 Bought from Frank Case for cash, 40 tons Coal at \$2.00.
 May 8 Bought from Geo. Cates, 50 cords Wood at \$2, and gave in payment my 60-day note with interest at 6%.
 May 9 Paid cash for labor, \$4.
 May 10 Bought from A. W. Allen, on account, 30 bales Hay at 90c, and 100 bu. Corn at 60c.
 May 11 Bought from J. G. Evans, on account, 200 bu. Oats at 40c.
 May 11 Sold Geo. Lee for cash 6 tons Coal at \$3.
 May 12 Sold Harry Norman for cash 10 tons Coal at \$3.50.
 May 13 Sold A. Birdsell 200 bu. Oats at 50c for his 30-day note.

				MISCELLANEOUS	
DATE	L. F.	NAME OF ACCOUNT	EXPLANATION	DR.	CR.
May 1		Evans Bros	Investment		3000
2	✓	Bot of R. L. Davis	600 bu Wheat @ 80¢		
3		Expense	Rent for May	30	
4		A. W. Allen	400 bu. Oats @ 40¢		
4		J. G. Evans	500 " Corn @ 50¢		
5		Frank Case	100 " Corn @ 60¢		
6		Bills Rec. Geo Horn	200 " Wheat @ 90¢	180	
6	✓	Bot of Frank Case	40 T Coal @ 2.00		
8		Bills Pay Geo Cates	50 cds Wood @ 2.00		100
9		Expense	Labor	4	
10		A. W. Allen	30 bales Hay 90¢ 100 bu Corn 60¢		
11		J. G. Evans	200 bu. Oats @ 40¢		
11	✓	Sold to Geo. Lee	6 T Coal @ 3.00		
12	✓	" " Harry Norman	10 T Coal @ 3.50		
13		Bills Rec.	A. Birdsell 200 bu Oats 50¢	100	
15		Frank Case	100 bu. Oats @ 40¢		
16		Bills Pay	Chas Gray 300 bu Wheat 80¢		240
20		A. W. Allen	20 cds. Wood @ 3.00		
22		Expense	Repairs on Wagon	4.50	
24		A. W. Allen	to apply on acct		
27		J. G. Evans	" " " "		
29		Frank Case	" " " "		
				318 50	3340

Illustration No. 37

May 15 Sold Frank Case, on account, 100 bu. Oats at 40c.
 May 16 Bought from Charles Gray, 300 bu. Wheat at 80c, for my note at 45 days.
 May 20 Bought from A. W. Allen, on account, 20 cords Wood at \$3.
 May 22 Paid cash for repairs on wagon, \$4.50.
 May 24 Paid A. W. Allen \$50 to apply on account.
 May 27 Paid J. G. Evans \$100 to apply on account.
 May 29 Received \$30 from Frank Case to apply on account.

Posting From the Cash Journal

224. It is not necessary to open an account with Cash in the ledger as this account is kept in the Cash Journal. The method of showing the cash balance

CASH		MERCHANDISE		ACCOUNTS RECEIVABLE		ACCOUNTS PAYABLE	
DR.	CR.	DR.	CR.	DR.	CR.	DR.	CR.
3 000							
	480	480					
	30						
		160					160
		250					250
			60	60			
			180				
	80	80					
		100					
	4						
		87					87
		80					80
18			18				
35			35				
			100				
			40	40			
		240					
		60					60
	450						
	50					50	
	100					100	
30	24850						
3083		②	①		30		
3083	3083	1537	433	100	30	150	637

Illustration No. 37 (Continued)

at the end of the month is illustrated in the model Cash Journal. (See Illustration No. 37.)

225. Open an account with Merchandise in the ledger and post the totals of the Merchandise column.

Evans Bros Proprietors

				May 1		3000
				Merchandise		
May 29		1537	May 29			4433
				Expense		
May 3		30				
9		4				
22		450				
				A. W. Allen		
May 24		50	May 4		160	
				10	87	
				20	60	
				J. L. Evans		
May 27		100	May 4		250	
				11	80	
				Frank Case		
May 5		60	May 29		30	
15		40				
				Bills Receivable		
May 6		180				
13		100				
				Bills Payable		
			May 8		100	
			16		240	

Illustration No. 38

226. In posting the totals of special columns, check them by encircling the ledger page as shown in the Merchandise column in the model Cash Journal.

227. All the items in the Miscellaneous, Accounts Receivable, and Accounts Payable columns are posted daily to their proper accounts. In posting from these three columns, the debit items in the Miscellaneous column are posted first and then the credit item of the same column. Observe the same order in Posting from the Accounts Receivable and Accounts Payable columns. As you post, check each item by placing the ledger page in the folio column in the Cash Journal.

Special Column Books

228. *Special column books* are those provided with special money columns for the transactions which occur most frequently in the business.

229. Some of the advantages of special columns in books of original entry are:

- (a) They save labor.
- (b) They furnish a convenient method of subdividing accounts in order to give more detailed information about them.
- (c) They simplify the work of taking trial balances by reducing the number of accounts through the employment of Controlling accounts and Subordinate ledgers.

Subdividing Accounts

230. Take as an example the Grocery business in with the goods handled include a general line of staple groceries, cigars and tobaccos, wines and liquors. Instead of crediting all sales of these various items to a general merchandise account, open three separate accounts, namely, Groceries, Cigars and Tobaccos, Wines and Liquors. This classification can be easily made by providing special columns in the Sales and Purchase Books. At the end of the month the totals of each of the special columns would be posted to their respective accounts.

231. By this method the dealer can determine the loss or gain of the various departments of his business. This enables him to strengthen a losing department or discontinue it altogether, and to push that part of his business which shows the greatest returns.

Controlling Accounts

232. In many large concerns it is desirable to provide individual ledgers for certain classes of accounts; for instance, all accounts of customers may be kept in a separate ledger. This ledger is known by many different names,

such as, Accounts Receivable ledger, Sales ledger, etc. However, the name is immaterial. It is the purpose for which it is used that is important. Another ledger may be kept for accounts with persons from whom we buy. This may be called the Purchase ledger, Accounts Payable ledger, etc.

233. To secure the greatest advantage from the use of Subordinate ledgers, Controlling accounts must be opened in the General ledger.

234. *A Controlling account* is an account opened in the General ledger to represent the totals of any class of accounts for which a special ledger is provided.

235. *The principle involved* in using Controlling accounts for special ledgers can be briefly explained by referring to the transactions illustrating the Cash Journal in this lesson.

236. Assume that a special ledger is used for all Accounts Receivable and another for the Accounts Payable. In posting the individual items in the special column of the Cash Journal headed "Accounts Receivable" each person would be debited or credited in his account in the Accounts Receivable ledger. The items in the Accounts Payable column would be posted to the individual accounts in the Accounts Payable ledger.

237. At the end of the month an account would be opened in the General ledger under the title "Accounts Receivable Ledger," and this account would be debited and credited for the footings of the Accounts Receivable column. Another account called "Accounts Payable Ledger" would be opened for the footings of the Accounts Payable column.

238. In any business the personal accounts are the most numerous. You will observe that the General ledger would contain very few accounts when Subordinate ledgers and Controlling accounts are used. The work of taking a trial balance is thus reduced to the minimum.

239. The Controlling account in the General ledger must agree with the ledger it represents. To prove this, take an abstract of the ledger. This is done by finding the total of all the balances of the open accounts in the special ledger. For instance, the total of the balances in the Accounts Receivable ledger should equal the difference between the two sides of the "Account Receivable Ledger" account in the General ledger.

240. The Cash Journal illustrated in Section 223 shows an original form of a special column book adapted to many lines of business. It has no doubt occurred to you that special columns could have been added for Expense, Bills Payable, and Bills Receivable. This idea can be carried out to suit the special requirements of any business. Keep in mind that special columns should be provided only for those transactions which are of frequent occurrence in the business.

Exercise No. 19

241. This exercise is designed to give you practice in the use of the Cash Journal, Controlling accounts and special ledgers for Accounts Receivable, and Accounts Payable.

Enter the following transactions on specially ruled paper which you will find among your supplies.

Tea and Coffee Transactions

- June 1 C. B. Wood engaged in the wholesale tea, coffee and spice business with a cash investment of \$3,500.
- June 2 Bought from C. Jevne & Co., on account, 5 bags Golden Rio Coffee, 135 lbs. each, at 11c; 4 chests Young Hyson Tea, 75 lbs. each, at 40c; 4 chests Gunpowder Tea, 70 lbs. each, at 37c.
- June 2 Bought from Franklin MacVeagh & Co., on account, 20 doz. 1-lb. tins, Allspice at \$2; 10 doz. ½-lb. tins, Cinnamon at \$3.
- June 2 Paid cash for freight on above invoices, \$4.
- June 3 Sold for cash, 1 bag Golden Rio Coffee, 135 lbs., at 22c.
- June 4 Bought from Sprague, Warner & Co., on account, 10 bales Mocha Coffee, 80 lbs. each, at 20c; 10 chests Green Japan Tea, 80 lbs. each, at 35c.
- June 5 Sold to C. W. Brady, on account, 4 bales Mocha Coffee, 80 lbs. each, at 30c; 5 doz. ½-lb. tins, Cinnamon at \$4.50.
- June 6 Bought from McNeil & Higgins Co., on account, 10 bags Bogota Coffee, 135 lbs. each, at 16c.
- June 8 Sold the Acme Grocery Co., for cash, 3 bags Bogota Coffee, 135 lbs. each, at 22c.
- June 8 Paid cash for labor, \$3.
- June 9 Sold to the Acme Grocery Co., on account, 1 chest Gunpowder Tea, 70 lbs., at 52c; 1 chest Green Japan, 80 lbs., at 48c.
- June 10 Gave Sprague, Warner & Co., note at 10 days with interest at 6%, for invoice of June 4.
- June 10 Received \$50 cash from C. W. Brady, to apply on account.
- June 10 Bought from Sprague, Warner & Co., on account, 150 lbs. Cloves, at 23c; 4 chests Young Hyson Tea, 75 lbs. each, at 35c.

241a. When you have filled the first page of your Cash Journal, foot each column in small lead-pencil figures. Before transferring the footings to the first line of the next page, prove your work by ascertaining that the total of all the debit footings equals the total of all the credit footings. Do not enter the footings in ink until you have completed entering all the transactions, and they have been verified by the teacher. Always leave a blank line at the top of each page for the footings of the previous page.

- June 11 Sold to R. H. Richie, on account, 1 chest Young Hyson, 75 lbs., at 60c.
- June 12 Bought from Franklin MacVeagh & Co., on account, 20 doz. ½-lb. tins, Cinnamon at \$3; 5 bales Mocha Coffee, 80 lbs. each, at 20c.

- June 12 Sold to Samuel Brown, 4 chests Young Hyson, 75 lbs. each, at 60c.
- June 15 Paid C. Jevne & Co., for invoice of June 2, by paying them cash \$100, and balance by 30-day note, with interest at 6%.
- June 15 Sold R. H. Richie, on account, 12 doz. ½-lb. tins, Cinnamon at \$4.50.
- June 15 C. W. Brady paid \$25 cash on account.
- June 15 Paid cash to Franklin MacVeagh & Co., in full for invoice of the 2d inst.
- June 15 Sold Harry Summers, on account, 5 bags Mocha Coffee, 80 lbs. each, at 30c.
- June 16 Bought from Sprague, Warner & Co., on account, 10 chests Gunpowder Tea, 70 lbs. each, at 37c.
- June 16 Received note, on account, from Samuel Brown, \$180.
- June 17 Received cash from R. H. Richie, on account, \$45.
- June 17 Sold for cash, 75 lbs. Cloves at 34c.
- June 17 Paid Sprague, Warner & Co. cash for invoice of the 10th inst., less 3% discount.

241b. Enter this writing "Sprague, Warner & Co." on one line, followed by a brief explanation and extending the full amount of the invoice \$139.50 in the debit column of the Accounts Payable section of the Cash Journal. On the next line, write "Interest and Discount," followed by the explanation, "3% on above Inv.," and extending the amount \$4.19 in the credit column of the Miscellaneous section, and in the credit column of the Cash section write the amount of cash paid out, \$135.31.

- June 18 Bought from C. Jevne & Co., on account, 5 bags Bogota Coffee, 135 lbs. each, at 16c; 5 bags Golden Rio Coffee, 135 lbs. each, at 11c.
- June 19 Sold to George Howe, and received \$50 cash, and balance to be paid in 30 days, 5 chests Green Japan Tea, 80 lbs. each, at 48c; 10 doz. 1-lb. tins, Allspice, at \$3; 4 bags Golden Rio Coffee, 135 lbs. each, at 16c.
- June 19 Paid cash for advertising, \$96.
- June 19 Sold to Samuel Brown, on account, 7 bags Bogota Coffee, 135 lbs. each, at 22c.
- June 19 Sold C. W. Brady, on account, 5 chests Gunpowder Tea, 75 lbs. each, at 52c; 30 lbs. Cloves at 34c.
- June 19 Paid McNeil & Higgins Co., cash to apply on account, \$100.
- June 20 Paid Sprague, Warner & Co., cash to apply on account, \$50.
- June 20 Paid cash for note of the 10th inst., favor Sprague, Warner & Co., with 10 days' interest.

Note: Calculate the interest at 6 per cent. Have your answer verified by your teacher before entering in the books.

- June 20 Sold R. H. Ritchie, on account, 4 bags Golden Rio Coffee, 135 lbs. each, at 16c; 5 doz. 1-lb. tins, Allspice, at \$3.
- June 22 Sold to Amos Dean, on account, 5 bags Bogota Coffee, 135 lbs. each, at 22c.
- June 22 Paid cash for labor, \$7.
- June 22 Received cash from Acme Grocery Co., \$74.80.
- June 22 Sold C. W. Brady, on account, 2 chests Green Japan Tea, 80 lbs. each, at 48c.
- June 24 Received cash from Samuel Brown for note of the 16th inst., \$180.
- June 24 Received cash from C. W. Brady for balance of bill sold him on the 5th inst., \$43.50; also received his note at 30 days with interest at 6% for bill of the 19th inst.

June 25 Bought from C. Jevne & Co., on account, 10 doz. 1-lb. tins, Allspice at \$2; 50 lbs. Cloves at 23c; 6 chests Green Japan Tea, 80 lbs. each, at 35c.
 June 25 Sold Harry Summers, on account, 4 chests Green Japan Tea, 80 lbs. each, at 48c.
 June 26 Gave McNeil & Higgins Co. note at 30 days for balance of invoice of the 6th inst.

Before handing your Cash Journal to the teacher to be verified, test the footings as instructed in Section 241a.

Directions for Proceeding With the Work

242. *Posting:* This exercise calls for three ledgers: a General ledger, an Accounts Receivable ledger, and an Accounts Payable ledger. You will, therefore, take three sheets of ledger paper, and mark them accordingly.

First, post the items in the Accounts Payable column to their respective accounts in the Accounts Payable ledger, giving each account five lines.

Post the items in the Accounts Receivable column to the Accounts Receivable ledger, giving the accounts with C. W. Brady and R. H. Richie six lines each and the others four lines each.

Post the items in the Miscellaneous column to the General ledger, allowing five lines to each account.

243. Next open the following accounts in your General ledger: Merchandise, Accounts Receivable Ledger, Accounts Payable Ledger. Post to these accounts the footings of their respective columns in the Cash Journal.

244. Take a Trial Balance of the General ledger. Do not forget to include the footings of the cash column in the Cash Journal.

245. Should you have difficulty in getting a Trial Balance, the error is very likely to be one in posting the Miscellaneous column. Before checking the correctness of your posting, be sure that there are no errors in your additions.

246. *Merchandise inventory* is taken at cost, and comprises the following items:

15 doz. 1-lb. tins, Allspice at \$2.00.
 13 doz. $\frac{1}{2}$ -lb. tins, Cinnamon at \$3.00.
 95 lbs. Cloves at 23c.
 4 chests Green Japan Tea, 80 lbs. each, at 35c.
 3 chests Young Hyson Tea, 75 lbs. each, at 40c.
 8 chests Gunpowder Tea, 70 lbs. each, at 37c.
 1 bag Golden Rio Coffee, 135 lbs. at 11c.
 6 bales Mocha Coffee, 80 lbs. each, at 16c.

Hand the inventory to the teacher for verification before proceeding.

247. Prepare Abstracts of the Accounts Receivable and the Accounts Payable ledgers and verify by comparing with the balances shown by their Controlling accounts in the General ledger. Use journal paper for this purpose, and for additional explanation refer to Section 239.

248. Make out a statement showing the condition of the business.

249. Close the ledger.

When you have completed all the work called for, hand to your teacher for inspection.

250. Answer the following questions in writing and hand to your teacher:

- (a) What is a Controlling account?
- (b) What are the advantages of special column books?
- (c) Suggest how special columns could be used in the Sales Book.
In the Purchase Book.
- (d) Suggest what special columns could be used to advantage in the Cash Book.
- (e) In case of difficulty in getting your trial balance, which column in the Cash Journal would you check first in order to locate the error, if it is one due to a mistake in posting? Why?
- (f) Is there a limit to the special columns which can be provided in books of original entry? Explain.
- (g) Suggest a modification of the Cash Journal illustrated in this lesson.

Fifteenth Lesson

Shipment and Consignment Accounts

251. A *commission business* is one in which the proprietor is engaged in shipping and receiving goods to be sold on commission.

252. By *shipment* is meant goods sent to others; the goods received from others are known as a *consignment*. The person making the shipment is called the *consignor*; the person to whom the goods are shipped is called the *consignee*.

253. The legal title to the goods rests in the consignor until they are sold by the consignee. The consignee, however, has a lien upon the goods in his possession for all charges incurred on their account. As soon as the goods have been sold, the consignee becomes indebted to the consignor for the net proceeds. The latter should be remitted or placed to the credit of the consignor.

254. When goods are shipped to others to be sold on our account and risk, an account is opened under the name of the person to whom the shipment is made. For instance, if a shipment is made to C. Runnels, the title of the account would be "C. Runnels, Shipt. No. 1." Shipments should be numbered consecutively. If several shipments are made to the same person, a separate account is usually opened with each lot.

255. When goods are received from others to be sold on their account and risk, an account is opened under the name of the person from whom they were received. For instance, if a consignment is received from R. L. Brown, the title of the account would be "R. L. Brown, Cons. No. 1."

256. A shipment account represents the goods, and will show a loss or a gain after the account has been credited with the net proceeds.

257. A consignment account is like a personal account, and until it is closed will show a resource or a liability.

A consignment account usually shows a liability, although it may sometimes show a resource, as where the sales of property belonging to it are less than the charges.

258. An *account sales* is a statement rendered by the consignee to the consignor, showing in detail the goods sold, all the charges, and the net proceeds.

259. At the time of making a statement of the business, consider all open shipment accounts (those for which account sales have not been received) as resources for the difference between the two sides of the account. If an account sales has been received for a part of the shipment, then the value of the unsold goods will be the resource inventory shown by the account.

The goods on hand belonging to a consignment are the property of the consignor, and are not considered in closing the books.

260. The entries required by the following transactions will be illustrated in Journal form to show the accounts that are debited and credited. Only the items affecting the Shipment and Consignment accounts are posted in the ledger illustrations. A careful study of these transactions will enable you to understand the principles involved in the handling of Shipment and Consignment accounts. The method shown here is applicable where this class of accounts do not occur frequently. In a commission business, specially ruled books are generally used in order to facilitate the work.

Transactions Illustrating Shipping and Consignment Accounts

- August 1 Shipped to A. D. Sprague, Woodstock, Illinois, to be sold at our risk, merchandise valued at \$275.00. Paid cash for hauling, \$4.00; crating, \$6.50.
- August 2 Received a consignment of goods from O. B. Bauer, Hammond, Indiana, to be sold for his account and risk. Paid the following charges in cash: freight \$3.70; drayage, \$2.50.
- August 14 Received bank draft from A. D. Sprague for \$100.00 as an advance payment on account of shipment sent to him August 1.
- August 16 Received \$275.00 cash for sale of balance of goods belonging to Bauer's consignment.
- August 19 Received account sales from A. D. Sprague showing net proceeds to be \$247.80. Instead of remitting in cash, he has placed this amount to our credit for 10 days.

Observe that in the above transaction A. D. Sprague is debited in his personal account for the amount of the net proceeds. The account with A. D. Sprague, Shipt. No. 1, is the account with the property and not with him personally.

- August 21 Rendered an account sales to O. B. Bauer to close consignment received from him August 2. In addition to the charges appearing against this account, deduct the following: commission at 3%; insurance, \$2.00; storage, \$2.50. The net proceeds, \$377.30 have been remitted by check.

August 1, 19—

	A.D. Sprague Shift No 1	275		
	Midse.			275
	A.D. Sprague Shift No 1	1050		
	Cash			1050
	✓			
	O.B. Bauer Cons No 1	620		
	Cash			620
	9			
	A.P. Vail	125		
	O.B. Bauer Cons No 1			125
	114			
	Cash	100		
	A.D. Sprague Shift No 1			100
	16			
	Cash	275		
	O.B. Bauer Cons No 1			275
	19			
	A.D. Sprague	24780		
	A.D. Sprague Shift No 1			24780
	21			
	O.B. Bauer Cons No 1	39380		
	Commission			12
	Insurance			2
	Storage			250
	Cash			37730

Illustration No. 39

A.D. Sprague Shift No. 1

19—			19—		
Aug. 1		275	Aug. 14		100
1		1050	19		24780
		34780			34780

Illustration No. 40

19- Aug	2	O. B. Bauer	19- Aug	9	Cons. No. 1	125
21		670	16			275
		393				400
		400				

Illustration No. 41

Exercise No. 20

261. Journalize the shipment and consignment transactions given below.

Commission Transactions

- September 5 Commenced the Commission business and invested cash, \$500.00.
- September 5 Received consignment of goods from Jos. Lewin, Springdale, Mo., and paid cash for freight, \$7.00.
- September 6 Shipped a car of produce, valued at \$340.00, to Walter Fair, Peoria, Ill. Paid cash for boxing, \$24.00, and hauling to freight house, \$16.00.
- September 7 Received a consignment of watermelons from Arthur Mann, Macon, Ga., to be sold on his account and risk. Paid cash for freight charges, \$18.00.
- September 7 Sold on account to Olmsted & Wahl, 342 Center St., goods valued at \$75.00, belonging to Lewin's Cons. No. 1.
- September 8 Received a consignment of potatoes from Jos. Lewin, and paid cash for freight and hauling, \$19.00.
- September 8 Sold from Arthur Mann's consignment goods valued at \$150.00, and received cash.
- September 11 Drew a sight draft on Walter Fair for \$150.00 on account of shipment made him on the 6th, and left it at the bank for collection.
- Note: No entry is made for this until the bank notifies you that the sight draft has been paid.
- September 11 Sold for cash, \$200.00, balance of goods from Lewin's Cons. No. 1.
- September 12 Shipped Marvin & Hart, Kenosha, Wis., to be sold on our account and risk, goods valued at \$237.00. Paid cash for crating, \$8.00; drayage, \$10.00.
- September 13 Sold to O. R. Brown, on account, goods valued at \$150.00 belonging to Lewin's Cons. No. 3.
- September 16 Bank notifies you that draft on Walter Fair has been collected. The charge for collection is 30 cents. Make the proper entry in the Journal, debiting Expense account for the collection charge.
- September 18 Closed Cons. No. 1, and gave Jos. Lewin credit for the net proceeds. Deduct these additional charges: commission 3%; boxing, \$4.00; drayage, \$3.50; insurance, \$1.50.

Note: All items such as boxing, crating, sacks, etc., should be entered in an account called "Boxing and Crating."

- September 20 Received account sales from Walter Fair for shipment sent him September 6. He inclosed check for \$275.00, the net proceeds.

- September 21 Paid sight draft on us drawn by Arthur Mann, on account of Consignment No. 2, \$150.00.
- September 25 Received account sales from Marwin & Hart, account of Shipment No. 2, showing the net proceeds to be \$248.50. New York draft was inclosed.
- September 25 Shipped a lot of goods valued at \$290.00 to C. E. King, Elkhart, Ind., to be sold on our account and risk. Paid cash for hauling to the freight house, \$5.80.

262. When the above transactions are properly entered, have your work verified by the teacher, after which carry out the following instructions:

- (a) Post to ledger paper, opening accounts as required.
- (b) Take a trial balance.
- (c) Determine what accounts show inventories. (See Section 259.)
- (d) Make out a financial statement.
- (e) Close the Ledger.

263. Answer the following questions in writing and hand to your teacher:

- (a) What is a commission business?
- (b) What is a shipment?
- (c) What is a consignment?
- (d) Why is property on hand, belonging to a consignment, not considered a resource when the financial statement is made out?
- (e) The debit side of a Consignment account is \$47.00, the credit side is \$253.00. Make the required Journal entry for closing the account after deducting the following charges: Commission 2%; boxing \$4.00; insurance \$3.50; storage \$5.00, and remitting the proceeds in cash.

Rules of Debit and Credit

264. The following summary of the rules for debiting and crediting Shipment and Consignment accounts will be convenient for reference.

Shipment Accounts

265. Debit the Shipment.

- (a) For the value of the goods (usually cost) at the time they were sent.
- (b) For all expenses incurred in making the shipment.

266. Credit the Shipment.

- (a) For all payments received on account of it.
- (b) For the net proceeds when the account sales is received.

Consignment Accounts

267. Debit the Consignment.

- (a) For all charges paid at the time of receiving the goods.
- (b) For all subsequent charges.
- (c) For the net proceeds.

268. Credit the Consignment.

- (a) For all sales of goods belonging to it.
- (b) For rebates on overcharges previously debited to the account.

Opening Entries

269. At the commencement of business a proprietor often invests something besides cash. He may have various kinds of property on hand, or debts due him, either in the form of open accounts or promissory notes. He may also be indebted to others and these liabilities are to be assumed by the business.

270. When the proprietor begins business with resources and liabilities, it is customary to make the opening entry in the Journal, debiting the resources and crediting the liabilities and giving the proprietor credit for their difference. This difference is called the *net investment*.

271. The following illustration will make this matter clear and enable you to make the opening entry in similar cases.

J. B. Carter begins business with the following resources and liabilities: cash on hand, \$2,350; stock of goods valued at \$1,200; office furniture, \$125; bills receivable on hand, \$600. Due from John James, \$150; from Alfred Peats, \$260. He owes on account, Sanborn & Wilder, \$360; M. O. Hansen, \$75.00. There is one outstanding note for \$490.00 on which there is six months' accrued interest amounting to \$14.70.

The Journal entry for the above would be made in the following form:

<i>Cash</i>	2350.00	
<i>Mdsc.</i>	1200.00	
<i>Furniture & Fixtures</i>	125.00	
<i>John James</i>	150.00	
<i>Alfred Peats</i>	260.00	
<i>Bills Receivable</i>	600.00	
<i>Sanborn & Wilder</i>		360.00
<i>Bills Payable</i>		490.00
<i>M. O. Hansen</i>		75.00
<i>Interest & Discount</i>		14.70
<i>J. B. Carter, Net Inv.</i>		3745.30

Cash is checked (✓) to indicate that it is also entered on the debit side of the Cash Book, and therefore is not to be posted.

272. When two or more persons engage in business as partners, separate opening entries should be made for the resources and liabilities of each partner.

Exercise No. 21

273. Arrange the following opening entries in Journal form:

(a) Adrian K. Lambert began business investing the following resources and liabilities: cash on hand, \$3,000; J. E. Baker's 90-day note for \$870; accrued interest on Baker's note, \$8.70; Brown & Lodrich owe him on account \$500; B. J. Tanner owes him \$240.00.

His liabilities consist of a note for \$600 in favor of George Bemis and accrued interest on it amounting to \$27.00.

(b) Jerome Vanna and Leon Caxton commenced business as partners.

Vanna invested the following: cash, \$1,390; merchandise, \$600; his personal note for \$300, and a debt of \$361 due him on account by Otis Bennings.

He owes on account: P. O. Hogue, \$60; Mendell & Laird, \$125.

Caxton invested: cash, \$260; merchandise, \$1,457; K. B. Perry owes him on account \$430; C. R. Vance owes him \$650.

He owes Blaine Thomas on a personal note, \$250; accrued interest thereon, \$5.00; he owes Simmons Bros., on account, \$70.

Merchandise Discount

274. This subject was mentioned briefly in the Eighth Lesson, Section 132. Keeping a separate account with merchandise discount enables the proprietor to determine the actual amount of discounts allowed to others for paying bills within the discount period, also the amount that he gains by discounting his own purchases.

275. When our customers discount their bills, the net amount of our sales is reduced; when we discount our invoices, the net cost of our purchases is reduced.

The Merchandise Discount account is transferred to the Merchandise account before the latter is closed.

276. It is a common practice in business to allow a discount, usually 2%, for paying cash in ten days. The person or firm having capital enough to discount all bills has a decided advantage, as such discounts constitute a big saving. If the cash on hand is not sufficient to discount a bill, it would pay to borrow the money on short time notes in order to save the discount.

277. An example will show clearly the gain to be derived from such a loan. Suppose an invoice amounting to \$600.00 is purchased on account thirty days, or two per cent discount for cash in 10 days. Two per cent on \$600.00 is \$12.00. It will take \$588.00 to pay the invoice. If the proprietor has not this

sum on hand, he can give the bank his 30-day note for such an amount that when discounted, the proceeds will be \$588.00. A note for \$590.95, discounted for 30 days at 6% will give \$588.00 as proceeds. The difference between \$12.00, the discount of 2% on the invoice, and \$2.95, the interest on the loan of \$588.00, is \$9.05. The latter amount is gained by taking advantage of the cash discount.

Examples in Merchandise Discount

278. An invoice from Bowen & Co., dated January 3, 1911, amounting to \$937.80, was purchased on the following terms: 60 days, net; 30 days, 1%; 10 days, 2%.

The above invoice will be used as the basis for several transactions illustrating the necessary entries to be made by the bookkeeper.

279. Pay cash for the invoice, less 2% for paying within 10 days from date.

The discount at 2%, would be \$18.76. Enter in the Cash Book and debit Bowen & Co. on the credit side for \$937.80 and credit Merchandise Discount on the debit side for \$19.76.

280. Not having the ready cash to discount the invoice, borrow at the bank on your 30-day note, the exact amount required to pay the invoice, less 2%.

After deducting the 2% the net amount is \$919.04. This represents the proceeds to be derived from a 30-day note when discounted at 6%. The face of such a note will be \$923.66.

The Cash Book entry for the transaction will be as follows: credit Bills Payable on the debit side for \$923.66, and debit Interest and Discount on the credit side for \$4.62.

You would next issue your check to Bowen & Co. for \$919.04 and make the following entry in the Cash Book: on the credit side, debit Bowen & Co. for \$937.80 and on the debit side, credit Merchandise Discount for \$18.76. By taking advantage of the cash discount you have gained \$14.14 by borrowing the money.

281. Assuming that you had \$600.00 cash on hand which you could apply as a part payment on the invoice within the 10-day discount period, you would be entitled to a credit of such a sum, which, if discounted at 2%, would give \$600.00, net. Every dollar of an invoice, subject to 2% discount, will be canceled by a payment of 98 cents. Therefore, a payment of \$600.00 will cancel a debt of as many dollars as 98 cents is contained in \$600.00, or \$612.24. The proof of this is found by deducting 2% from \$612.24, which leaves \$600.00.

The Cash Book entry for the above would be as follows: Debit Bowen & Co. on the credit side for \$612.24, and credit Merchandise Discount on the debit side for \$12.24.

282. Answer the following questions in writing and hand to your teacher:
- (a) What is Merchandise Discount?
 - (b) What advantage is derived from keeping a Merchandise Discount account?
 - (c) How would this account be disposed of when the books are closed for the year?
 - (d) In the example given in Section 281, why would it not be correct to deduct 2% from \$600.00 and then debit Bowen & Co. for \$612.00? Explain as fully as possible the reason for your answer.
 - (e) What is the difference, if any, between an invoice and a bill?

Sixteenth Lesson

Commercial Paper and General Review

283. By *maturity* of a note is meant the day upon which it is due and payable.

284. When a commercial paper is payable a given number of days from date, count ahead the exact number of days in finding the due date; when payable a given number of months after date, calendar months are counted.

285. If the day of maturity falls upon a Sunday or a legal holiday, the note is legally due on the next business day according to the laws of most states.

Examples in Finding Date of Maturity

286. A note dated December 31, 1911, and payable thirty days from date would be due January 30, 1912. If payable one month from date, it would be due January 31. If payable sixty days from date, it would be due February 29. If payable two months from date, it would be due February 29.

A note or time draft dated March 18, 1911, if payable in ninety days would be due June 16, 1911. If payable in three months, the date of maturity would be June 18, 1911.

Exercise No. 22

287. Below are given the dates of several notes; also the time they have to run. Find the dates of maturity and hand to the teacher for verification.

Date of Note	Time to run.
April 7, 1911.....	3 Days
July 31, 1909.....	60 Days
July 1, 1911.....	3 Months
July 1, 1911.....	90 Days
January 28, 1911.....	1 Month
January 28, 1911.....	30 Days
April 29, 1910.....	1 Month
May 31, 1911.....	1 Month
June 17, 1911.....	45 Days
October 25, 1910.....	90 Days

Discounting Promissory Notes

288. The advantage of a promissory note over an open account is that the note may be discounted and money realized on it before it is due.

Banks will discount commercial paper where the parties are known to be responsible, or where satisfactory collateral security is given.

289. By *collateral security* is meant corporate stocks, negotiable instruments and other written obligations which are deposited as a pledge to secure the payment of a debt.

290. Promissory notes are also transferred in the regular course of business in settlement of account.

When notes are transferred from one party to another as a payment, the present value of the note constitutes the amount to be applied on account.

291. The present value of a note is the amount which would be due at maturity, less the interest on this amount for the actual number of days from the day it is transferred or discounted to the day of maturity.

The amount due at maturity is the face of the note and the interest for the whole time, if the note bears interest.

The rate of discount is fixed by the parties, and is usually that at which money is loaned at the time of the transaction.

292. There is a difference between discounting another's promissory note and one's own written promise to pay. Another's promissory note is considered, in law, as personal property, and therefore may be sold at any price that the parties may agree upon, the same as any other chattel. When a person discounts his own promissory note, it is done for the purpose of raising funds. This is a loan of money, hence the law only allows the legal rate of discount.

Examples in Discounting and Transferring Commercial Paper

293. The following promissory note will form the basis for two transactions involving bank discount with the proper entries in the books.

\$672.90.

St. Paul, Minn., May 3, 1911.

Two months after date, I promise to pay to the order of James Buchanan, Six Hundred Seventy-two and 90/100 Dollars. Value received.

ALBERT LUTRELLE.

294. James Buchanan having received the above note and wishing to realize on it without waiting until July 3, the day it is due, has the note discounted at the bank at 6%, on May 31. The actual number of days from May 31 to July 3 is 33. The discount is the interest on \$672.90 for 33 days at 6%, or \$3.70. By this transaction the bank makes \$3.70 for advancing \$669.20 on the note. In other words, James Buchanan pays \$3.70 interest for the use of \$669.20 for 33 days.

James Buchanan would enter this transaction in his Cash Book. On the debit side, Bills Receivable account would be credited for the face of the note, \$672.90, and on the credit side, Interest and Discount account would be debited for \$3.70. The difference between these two entries represents the actual amount of cash received from discounting the note.

295. The promissory note given below illustrates a transaction in which an interest bearing note is discounted.

\$983.75.

Rochester, N. Y., March 4, 1911.

Ninety days from date I promise to pay Charles Brown, or order, Nine Hundred Eighty-three and 75/100 Dollars, with interest at 8% per annum.

D. E. MEYERS.

296. Charles Brown discounted the above note at the bank on April 16, at the rate of 6%.

The interest on \$983.75 for the whole time, ninety days, is \$19.67. The amount to be discounted is the sum of the face and the interest, or \$1,003.42. The note is due June 2. The time from April 16 to June 2 is 47 days. The interest on \$1,003.42 for 47 days, at 6%, is \$7.86. The proceeds, or amount realized, is the difference between \$1,003.42 and \$7.86, or \$995.56.

This transaction will require two entries on the debit side of the Cash Book and one on the credit side. The first entry on the debit side would be "Bills Receivable, Dis., at bank, D. E. Meyers' note, \$983.75." The second entry would be "Int. & Dis., 90 ds., Int. on above at 8%, \$19.67." On the credit side of the Cash Book you would write, "Int. & Dis., 47 ds., Dis., at 6% on Meyers' note, \$7.86."

297. Let us assume that James Buchanan transferred the note in Section 293 to Samuel Warren to apply on account.

The note will not be worth its face value until July 3. Therefore, Samuel Warren should be debited only with the present value (see Section 291) of the note, and we have found that to be \$669.20.

James Buchanan would enter this transaction in the Journal by debiting Samuel Warren for \$669.20, Interest and Discount for \$3.70, and crediting Bills Receivable for \$672.90.

298. If the promissory note in Section 295 had been transferred by Charles Brown to Dillard & Garrick to apply on account on the day it was discounted at the bank, then the following entries would be made in the Journal by the bookkeeper for Charles Brown:

<i>Dillard & Garrick</i>	\$995.56	
<i>Discount</i>	7.86	
<i>Bills Receivable</i>		\$983.75
<i>Interest</i>		19.67

You will observe that Dillard & Garrick are debited with the cash value of the note at the time it was transferred to them.

229. Answer the following questions in writing and hand to your teacher:
- (a) Did Charles Brown lose by the transaction? If so, how much?
 - (b) Assuming that Dillard & Garrick held the note until it was due, would they gain or lose, and how much?
 - (c) In interest bearing notes, why is the interest for the whole time added to the face before discounting?
 - (d) Why should the person receiving a note on account before it is due be debited with the proceeds only?
 - (e) Write the Journal entry Dillard & Garrick would make when they receive the note from Charles Brown to apply on account.

Drafts and Their Use

300. The definition of a draft was given in the Sixth Lesson, Section 76. With reference to time of payment, drafts are either sight or time drafts. A sight draft is one payable upon presentation. Time drafts are payable after sight or after date. In the former the time runs from the date of acceptance, and in the latter from the date of the draft.

301. Sight drafts are treated as cash by the person receiving them. Refer to Illustration No. 14 for the form of an acceptance, also read Section 79.

302. By means of a draft it is possible for parties living in places distant from each other to cancel an indebtedness without sending the cash. To illustrate: A in Chicago, owes B in San Francisco, \$100.00, and C in San Francisco, owes A a like amount. A can draw a draft on C ordering him to pay B \$100.00, and then send the draft to B. When B receives the draft from A, he presents it to C for payment. You will observe that when C pays the draft two debts have been canceled without sending money back and forth from Chicago to San Francisco.

303. *Personal drafts* originated in the early days of commerce when it was extremely risky for business men going to far away countries to carry money with them, owing to the prevalence of bands of robbers on the highways and pirates on the seas. With the establishment of banks, postoffices and other financial agencies in all parts of the world, methods of transmitting money have been changed until now the personal draft is rarely used as a means of paying a debt.

304. A *check* is a written order upon a bank or banker directing the payment of a certain sum of money, on demand, to a third party. Aside from its

form, a check differs from a sight draft mainly in that it is drawn upon a bank, whereas the drawee in a sight draft is an individual or a firm.

305. A *bank draft* is a written order of one bank directing another bank to pay to a third party, or order, a certain sum of money on demand.

All banks have money on deposit in the nearest financial center against which they issue drafts. Nearly all banks have money on deposit in New York and Chicago. Drafts on these cities are payable at face value in all parts of the United States.

306. A bank draft forms a convenient and inexpensive method of remitting money. The draft is usually made payable to the purchaser who indorses it in full before sending it to the person who is to receive the money.

307. A charge known as *exchange* may be made by the bank for issuing a draft.

308. Sight drafts are most commonly used for collection purposes. A in Chicago has \$100.00 due him from B in Denver. A may draw a sight draft in his own favor on B for this amount, and after indorsing it, leave it at his bank for collection. This means that A's bank in Chicago will forward the draft to its correspondent bank in Denver. The Denver bank will present the draft to B for payment. If paid, it will remit the \$100.00, less a small charge for the service, to the Chicago bank who will notify its customer, A, that the draft has been collected and the amount placed to his credit.

In case B refuses payment the draft would go to protest, and a business man who values his credit standing will pay the draft rather than let it be protested.

309. By *protest* is meant the presentation of the draft by a Notary Public to the drawee for payment. The purpose of a protest is to furnish legal evidence of the fact of presentation within the proper time. The notary makes out a formal statement called the Protest which is sent to the holder of the paper. He also sends notice of the protest to all parties to whom the holder may look for payment.

310. The charge made by a bank for collecting a sum of money is called "Collection."

311. If it is desired to know how much is paid for collection and exchange items, an account may be opened under the title of "Collection and Exchange."

312. *Indorsement* as applied to commercial paper means writing one's name on the back of the paper with the intent to incur a liability under certain conditions. There are several kinds of indorsement, but only the ones most frequently used will be defined here.

313. A *full indorsement* is one in which the party transferring the paper writes the words "Pay to the order of" and then names the person to whom the transfer is made and signs his own name. The effect of such an indorsement is that only the indorsee (the party to whom transferred) has a legal title, and in order to sell the paper he must indorse it again either in full or in blank.

314. A *blank indorsement* is simply writing one's name on the back. The effect is that thereafter the paper is payable to the bearer, that is, whoever has possession of it.

315. An *indorser* of commercial paper makes himself liable for payment, in case the paper is not paid when due, or if for any other reason it is "No Good."

Exercise No. 23

316. Write the answers and prepare the work called for in the following exercises and hand to the teacher for examination:

(a) Write a draft on Jones & Martin, Elgin, Ill., in favor of C. J. Linden, payable 30 days after sight, for \$392.65. Use the current date.

(b) Write across the face of the draft Jones & Martin's acceptance made four days later.

(c) A. D. Howe in Buffalo owes M. W. Miller in Chicago \$430 and the account is considerably past due. Prepare for Miller the proper draft for collection through his bank.

(d) What is the difference between a draft payable 5 days after date and one payable 5 days after sight?

(e) Write the journal entries which would be made for the draft in exercise (a): (1) by the drawer; (2) by the drawees when they accepted it; (3) by the payee when he received the draft.

(f) C. K. Linden wishes to give Jones & Martin's acceptance to William S. Wall to apply on account. Write the full indorsement necessary to make the transfer.

(g) What is a blank indorsement?

(h) What liability, if any attaches to the signing of your name on the back of a note, draft or any other negotiable paper?

(i) What is the day of maturity in Jones & Martin's acceptance referred to in (b) above?

(j) If the above draft had been drawn at 30 days from date, when would it be due?

Exercise No. 24

317. In this exercise the student takes charge of a set of books already opened. It is assumed that the books were closed December 31, and that new ledgers are to be opened for the accounts shown by the last trial balance.

The business is conducted as a partnership; each partner having a one-half interest and sharing equally in the losses and gains. The partners are Eugene Gardner and David Lange. The books used are the Journal, Sales Book, Purchase Book, Cash Book, a General and an Accounts Receivable ledger.

The articles handled represent the hardware business and will be bought and sold in wholesale quantities.

318. Open the General ledger by entering the accounts given in the trial balance. Give each account one-third of a page, and open them in the order in which they are found in the trial balance. The cash balance will be entered later in the cash book.

TRIAL BALANCE, GARDNER & LANGE, DEC. 31, 19

Eugene Gardner		\$7,146.24
David Lange		7,146.23
Bills Receivable	\$ 897.50	
Bills Payable		1,465.75
Accounts Receivable	5,283.40	
Brown, Lee & Co.....		1,962.70
Morton Hardware Co.....		848.50
Edwin Barger		472.75
Lemont & Ganey.....		736.08
Chas. Herring		491.00
Merchandise	8,549.75	
Furniture and Fixtures.....	1,240.00	
Cash	4,298.60	
	<hr/>	<hr/>
	\$20,269.25	\$20,269.25

319. Open accounts in the Accounts Receivable ledger with the following personal accounts due the firm, entering three on each page: Jackson, Ward & Co., \$378.90; J. B. Mansfield, \$243.00; A. W. Quinn, \$682.58; A. R. Mangold, \$872.15; Bloom & Berger, \$387.90; Simonton Hardware Co., \$140.86; Maxwell Hardware Co., \$1783.97; B. K. Terry, \$116.80; E. E. Hunt, \$456.14; Edmund S. Hewitt, \$221.10.

320. Prepare the Cash Book by ruling an extra money column on the debit side. Head each column as follows: first column, "Mdse. Dis.," second column, "Accts. Rec.," third column, "General." The first column will receive all entries for merchandise discount allowed to us. The second column is for money received on account from our customers. The third column is for all other cash receipts.

321. The first column on the credit side will be headed Merchandise Discount, and will receive the entries for discounts allowed to others. The second column is for all other payments of cash.

Open your Cash Book by entering the cash balance in the General column on the debit side.

322. If you have carefully followed the directions given above, you are now ready to proceed with the regular business transactions.

Hardware Transactions

- January 3 Paid telephone bill for month, \$15.70.
 Received New York draft from A. W. Quinn in full of account, less 2%.
 Received 30-day note, dated December 30, interest 6%, from E. E. Hunt, to balance account.
 Received invoice of goods from the Baird Tool Co., \$980.40. Terms, 60 days; 2%, 30 days; 3%, 10 days.
 Paid cash for postage, \$35.00.
- January 4 Sold to Armstrong & Co., Clinton, Iowa, on account 60 days, 2% in 10 days: 10 doz. Hatchets at \$5.50 a doz.; 2 doz. Drawing Knives at \$9.00 a doz.; 20 doz. Rules at \$1.70 a doz.; 5 Heating Stoves at \$15.00 ea.; 5 Steel Ranges at \$47.50 ea.
 Paid cash for 20 tons coal at \$4.00 a ton, for furnace use.
 Sold to A. R. Mangold, Batavia, Ill., and received in payment his 60-day note with interest at 7%: 12 Refrigerators at \$24.75 ea.; 15 Heating Stoves at \$15.00 ea.
- Note: Make two entries for this and similar transactions as explained in Section 213.
 Bought from Chas. Herring, and gave our 30-day note in payment, invoice amounting to \$607.00.
- January 5 Paid cash for outstanding note, favor of Lennox & Co., \$703.25.
 Sold to B. K. Terry on account: 30 doz. Screwdrivers at \$1.05 a doz.; 5 doz. Clothes Wringers at \$57.00 a doz. With his order he inclosed check for \$116.80 to balance his old account.
 Sold to G. S. Lathrop, Elgin, Ill., 30 days net, 2% 10 days: 10 doz. Hand Saws at \$25.00 a doz.; 20 doz. Hammers at \$6.20 a doz.; 10 doz. Rules at \$1.70 a doz.; 5 Refrigerators at \$24.75 ea.
 Sold to Edmund S. Hewitt, and received cash, \$200.00, balance on account, 30 days: 8 Steel Ranges at \$47.50 ea.; 20 Heating Stoves at \$15.00 ea. A special discount of 3% was allowed from the whole bill.
- January 6 Gave Morton Hardware Co. check for balance of their account, \$848.50, less 2%.
 Gave Brown, Lee & Co., 10-day note, with interest, for \$962.70, to apply on account.
 Sold to J. B. Savage, Aurora, Ill., 2 doz. Clothes Wringers at \$57.00 a doz.; 10 doz. Hatchets at \$5.50 a doz.; 5 doz. Drawing Knives at \$9.00 a doz.; 6 Steel Ranges at \$47.50 ea. A special discount of 5% was allowed.
 Received in payment his 30-day note for \$240.00, bearing interest at 6%, and cash for the balance.
 Bought from Edwin Barger invoice amounting to \$800.00, and gave check for \$350 to apply on account.
- January 7 Gave Lemont & Ganey, to apply on account, note for \$360.00, due February 6, less discount at 6% for the unexpired time. For explanation of this transaction see Section 297.
- January 9 Paid cash for sundry freight bills, \$27.00.
- January 12 The Maxwell Hardware Co. gave us J. B. Scott's 60-day note for \$976.50, due February 28, less the discount at 6% for the unexpired time.
 Sold to A. W. Quinn on account: 4 doz. Hand Saws at \$25.00 a doz.; 5 doz. Hammers at \$6.20 a doz.

- January 13 Paid Baird Tool Co., cash for invoice of the 3d inst., less 3%.
- January 14 Sold to Mayer Bros., on account, 10 Steel Ranges at \$47.50 ea.
- January 16 Paid our note, with interest, given to Brown, Lee & Co., on the 6th.
Sold to Simonton Hardware Co., subject to sight draft in three days: 10 doz. Hatchets at \$5.50 a doz.; 20 Heating Stoves at \$15.00 ea.
- January 17 Received New York draft from Armstrong & Co. for bill of the 4th inst., less 2%
Gave cash to bank for sight draft drawn on us by Edwin Barger for balance of his account, January 2, \$472.75, less 2%.
Received invoice amounting to \$165.00 from Morton Hardware Co.
Received invoice, \$649.50, from Lemont & Ganey, on account 30 days; 2% in 10 days.
- January 18 Bought four horses and two delivery wagons, paying cash, \$980.00.
Note: Open an account with "Horse and Wagon."
- January 19 Insured stock of goods and other personal property for \$10,000 and paid the premium of 1½% in cash. Open an account with "Insurance."
Received cash from J. B. Mansfield in full of account.
Sold to Walter Spry, on account: 20 doz. Screwdrivers at \$1.05 a doz.; 3 Refrigerators at \$24.75 ea.; 5 Steel Ranges at \$47.50 ea.
Drew sight draft on Simonton Hardware Co., for bill of January 16, and left at bank for collection.
- January 20 Discounted at bank, at 6%, A. R. Mangold's note for \$522.00 received on the 4th. Remember that the note bears interest at 7%. The bank credits our account for the proceeds, which is the same as receiving cash.
- January 21 Paid our note for \$862.50, with 90 days' interest at 6%.
Received cash from Mayer Bros. for bill of the 14th, less 2%.
- January 24 Paid cash, \$156, to pay a personal bill against David Lange.
- January 26 Sold to G. S. Lathrop, 5 doz. Hand Saws at \$25.00 a doz., 10 doz. Hammers at \$6.20 a doz. Received from him \$75 cash, balance on account, 30 days.
Having more coal than we will need, we have sold for cash 5 tons at \$5 a ton.
- January 28 Our bank notifies us that the sight draft on the Simonton Hardware Co. has been collected and the amount, less 60c, placed to our credit. Make the proper entries, debiting Expense account with the charge for collection.
Paid cash for adding machine, \$250.
- January 30 Paid cash, \$25, for hay and feed for horses. Debit "Horse and wagon" account for this.
Received cash from Bloom & Berger in full of account.
Gave Lemont & Ganey \$500 cash to apply on invoice of January 17. Remember that this payment will entitle us to a credit of more than \$500. For an explanation of this transaction see Section 281.

323. Directions for completing the exercise:

- (a) Have all the entries in the various books verified before posting.
- (b) Post from the Purchase Book, Sales Book, Cash Book and Journal in the order named.

- (1) The total of the sales column in the Sales Book will be debited to the Accounts Receivable account and credited to the Merchandise account in the General ledger. Each person to whom goods were sold will be debited in the Accounts Receivable ledger.
 - (2) Prepare the Cash Book for balancing by footing each column in pencil. Draw a single red line across the special columns. In the explanation column on the debit side write, Accts. Rec., and Mdse. Dis. and enter the footings of these columns in the General column. On the credit side write Mdse. Dis. and enter the footing of that column in the General column. The Cash Book is now ready to balance as shown in Illustration No. 34, Twelfth Lesson.
 - (c) Take a trial balance of the General ledger.
 - (d) The inventories are as follows:

(1) Merchandise	\$8652.25
(2) Furniture and Fixtures.....	1475.00
(3) Insurance, unexpired	137.50
(4) Horse and Wagon.....	960.00
(5) Expense, unused coal.....	48.00
 - (e) Close the ledger. The Merchandise Discount account should be closed into the Merchandise account before the latter is closed to the Loss & Gain account.
 - (f) Prove the correctness of the Accounts Receivable account by taking an abstract of the Accounts Receivable ledger.
 - (g) Take a second trial balance.
 - (h) Hand all your books to the teacher for examination.
324. Answer the following questions in writing and hand to your teacher:
- (a) Name several accounts with property that you have studied.
 - (b) Name at least three Speculative accounts which you have had in your work.
 - (c) What two ways are there for finding the proprietor's present worth?
 - (d) What facts about the business are shown by the Statement?
 - (e) What is the fundamental principle of double entry book-keeping?

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